United States Postal Service
2014 Annual Report to Congress

FY2014 Annual Performance Report and FY2015 Performance Plan

FY2014 Comprehensive Statement on Postal Operations

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2014 Forever Stamps

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The year in review
Financial Highlights

(dollars in millions)			Years ended Sept. 30	Percent change from preceding year		
	FY2014	FY2013	FY2012	2014	2013	2012
Total revenue	$ 67,830	$ 67,318	$ 65,223	0.8%	3.2%	(0.7%)
Total operating expenses*	$ 73,178	$ 72,128	$ 80,964	1.5%	(10.9%)	14.6%
Interest, net	$ (160)	$ (167)	$ (165)			
Net loss	$ (5,508)	$ (4,977)	$ (15,906)			
Purchases of capital property and equipment	$ 781	$ 667	$ 705	17.1%	(5.4%)	(40.8%)
Debt	$ 15,000	$ 15,000	$ 15,000			
Capital contributions of U.S. Government	$ 3,132	$ 3,132	$ 3,132			
Deficit since 1971 reorganization	$ (48,463)	$ (42,955)	$ (37,978)			
Total net deficiency	$ (45,331)	$ (39,823)	$ (34,846)			
Number of career employees	488,300	491,017	528,458	(0.6%)	(7.1%)	(5.2%)
Mail volume (pieces in millions)	155,375	158,222	159,835	(1.8%)	(0.9%)	(5.0%)
New delivery points served	971,543	773,882	654,560			

* Due to the passage of P.L. 112-33 which changed the due date of the scheduled Postal Service Retiree Health Benefits Fund (PSRHBF) prefunding payment of $5.5 billion originally due by September 30, 2011 into 2012, PSRHBF expenses were zero in 2011. As a result, total PSRHBF expenses in 2012, including the previously scheduled prefunding payment of $5.6 billion due by September 30, 2012, were $11.1 billion. PSRHBF prefunding expense was $5.6 billion and $5.7 billion in 2013 and 2014, respectively.

Our Business Is Delivering.

Delivering Customer Service
Our mission is deeply ingrained in the values of our organization and our employees. By providing valuable services and great customer experiences, the Postal Service occupies a central public service role in our daily lives and in communities throughout the country.

Delivering Changes and Improvements
With new products and services, notable pilot projects, digital offerings, beneficial network changes and corporate policies intended to drive growth; the Postal Service is changing and improving to better serve the American public.

Delivering in a Changing Marketplace
The Postal Service is working with Congress to establish a business model that enables the organization to operate profitably, repay existing debts, invest in needed network improvements and best adapt to a changing marketplace.

Mickey D. Barnett, Chairman, U.S. Postal Service Board of Governors

Patrick R. Donahoe, Postmaster General and Chief Executive Officer

Delivering a New Day.
Letter from Chairman Barnett and the Postmaster General

The theme of this year's annual report — *Delivering a New Day* — reflects a renewed commitment on the part of the United States Postal Service (USPS) to view every day as a new opportunity to deliver great service to our customers. This is fitting, because throughout 2014, we delivered more than 155 billion packages and pieces of mail to almost 154 million delivery points and did so reliably and affordably. In doing so, we earned the trust of the American public by maintaining the privacy and security of the items we delivered.

This commitment also epitomizes our momentum and progress as an organization and reflects the myriad ways we are changing and evolving to better serve our customers. Indeed, if you look across the spectrum of ways that we operate and serve our customers throughout the country, our story is one of continuous adaptation and improvement. The needs of our customers are changing rapidly, and we know we must adapt quickly to maintain our relevance to the American consumer and strengthen our business. To that end, we've made extraordinary changes over the last few years to our mail processing, transportation, delivery and retail operations, and we're becoming a much more technological and data-centric organization. We're also moving rapidly toward a lean operational footprint that will significantly improve productivity.

So where is our business in Fiscal Year (FY) 2014? Despite challenging marketplace conditions, an inflexible business model imposed by federal law and financial issues caused by legislative constraints, the Postal Service is moving forward with a lot of momentum. In many core aspects of our business — from operational performance to developing and marketing new products and services — we are making progress, resulting in a strong foundation for the future of the organization.

U.S. Postal Service operating revenue increased $569 million in FY2014 over FY2013. If the effect of the $1.3 billion one-time adjustment to deferred revenue-prepaid postage in FY2013 is excluded, operating revenue would have increased by $1.9 billion. This revenue growth resulted from the January 2014 price increase and strong growth in our Shipping and Packaging business. Offsetting this positive news, however, were legislative burdens and constraints that contributed to a $5.5 billion net loss in 2014. This eighth consecutive annual net loss underscores the need for comprehensive legislation to repair our broken business model.

In the past three years, we have consolidated 143 mail processing facilities and eliminated approximately 3,800 delivery routes and modified retail hours to two, four or six hours in over 9,700 offices to better align with customer demand. We also responsibly reduced the size of our career workforce by approximately 3,000 employees during the year through a responsible and measured process of attrition. It is planned that further consolidation will impact an additional 82 mail processing operations in 2015.

Meanwhile, innovation continues to drive growth. In 2014, the Postal Service leveraged data and technology to develop and provide enhanced offerings and improve efficiencies. Dynamic routing, an operational test of early morning-hour deliveries and same-day delivery via MetroPost are just a few of the service innovations enabled by better use of data and technology. Moreover, with advancements in quick response (QR) codes and Personalized Uniform Resource Locators (PURLs), we saw many examples in 2014 of marketers giving mail a fresh look. Brands are marrying mail data with digital data to better target offerings and increase customer demand. Mail is being used in tremendous new ways, and it is no exaggeration to say that enhanced analytics will fundamentally expand the range of services we offer to our customers.

The Postal Service also capitalized on the growth of its package business in 2014 by partnering with major U.S. retailers to deliver packages in selected cities on Sundays. Sunday delivery serves the needs of valued customers in today's busy online world while at the same time, generates new revenue for the Postal Service. Today, we are delivering to over 650 cities and 3,892 five-digit ZIP Codes.

And while delivery remains our core function, service remains at the core of our mission. Our on-time delivery scores across most of our product lines are competitive, which is a testament to an exceptionally dedicated workforce. Moreover, the 2013 holiday season was a tremendous success for the Postal Service, which performed exceptionally well in delivering the nation's holiday packages — even with significant volume increases. The Postal Service also delivered 75,000 packages on Christmas Day, proving that our organization is

extremely dedicated when it comes to delivering gifts on time. This year, we expect even higher volumes, and we regard the holiday season as "our season," when we deliver on the promise of reliable and affordable service as well as a great experience while doing business with us.

Also in 2014, the Postal Service continued to grow its business by expanding consumer access for postage and postal products like Priority Mail. To that end, we announced in October 2013 a partnership with Staples, one of the country's largest retailers of office supplies. During the pilot, 82 Staples stores nationwide sold a variety of products and services, including stamps, Priority Mail, Priority Mail Express and package handling. In August 2014, those 82 stores transitioned to the Postal Service's Approved Shipper program. Additionally, the Postal Service opened more than 400 Village Post Offices in 2014. Located inside convenience stores, markets and other neighborhood businesses, Village Post Offices offer the most popular postal products and services, including PO Boxes, Forever stamps and prepaid shipping envelopes. Often, the hours are longer than regular Post Offices, making Village Post Offices a convenient option for customers.
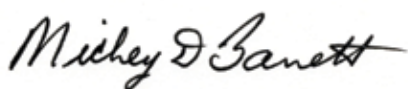
To further promote growth and improve processing efficiency, the Postal Service re-focused its efforts in 2014 on the 24-hour clock, which is designed to improve time management to keep the mail moving and give our customers the service they depend on. Introduced in 2006, the 24-hour clock recognizes that all of our processes are linked — and that if we perform the first chronological task well, it follows that we will perform well on the next and the next and the next, for the full 24-hour cycle.

The Postal Service also made it easier in 2014 for small businesses to attract new customers by launching a new online tool for its Every Door Direct Mail service, which helps small businesses find demographic data for specific delivery routes, review and inspect the size of mailings to be sure they meet standards and view larger ZIP Code area maps. The new tools support the Postal Service's goal to create simple and easy-to-use mailing and shipping products that allow our customers to focus their attention on building up their businesses.

As evidenced in the pages of this annual report, the Postal Service's operational achievements in 2014 are impressive and argue well for a strong future, but they cannot overcome the impacts of a broken business model. The Postal Service recorded a net loss of $5.5 billion in 2014, and we continue to face serious financial challenges. Moreover, there is an overwhelming liability burden. These liabilities include retiree health benefits and worker's compensation as well as $15 billion owed to the U.S. Treasury. As of September 30, 2014, the Postal Service had $68.3 in liabilities. These liabilities exceed assets by $45.3 billion, which further emphasizes the need for comprehensive legislation to avoid becoming a potential burden to the American taxpayer.

As we look back on our strong performance in 2014, we would like to thank the employees of the U.S. Postal Service for their continued commitment and dedication to serving the American people. The process of delivering billions of pieces of mail to reach the hands of intended recipients across the country and around the world is nothing short of extraordinary — and it's the people of the Postal Service who make it happen. By continuing to prove ourselves each and every day and by working together, we will continue to deliver value for the American people for many decades to come.

Mickey D. Barnett
Chairman, Board of Governors

Patrick R. Donahoe
*Postmaster General and
Chief Executive Officer*

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Committed to Public Service.

As the eyes and ears of the neighborhoods they serve, Postal Service employees go the extra mile for customers and communities every day and are highly committed to their role as public servants.

The dedication of our employees could be seen throughout 2014 in acts of heroism, such as those displayed by Wheeling, WV, Letter Carrier John Smith. Smith was delivering mail when he saw the driver of a car hit a patch of ice and swerve into a frigid creek. Without hesitation, Smith drove to the scene, disregarded the freezing temperature and waded into the water to check on the driver — an 18-year-old woman who appeared dazed and injured from the impact of the air bag and seat restraint. After pulling the young driver through the passenger-side door, Smith then carried her through waist-high water to safety.

The spirit of the Postal Service also was exemplified in Allentown, PA, when Letter Carrier Cynthia Rodriguez, who smelled gas while delivering mail to a customer, stopped to alert the residents. The gas company confirmed the gas leak and fixed it right away. Thanks to the prompt and courteous actions of Rodriguez, the residents of that community were spared from a potential tragedy.

At the Central Park Post Office in Buffalo, NY, Letter Carrier David Napora embodied the spirit of holiday giving by gathering and delivering gifts to approximately 50 children in need. A supporter of the local Family Help Center for more than 15 years, Napora — joined by 20 of his colleagues — went above and beyond to put smiles on the faces of children and to make a difference in the neighborhoods he and his colleagues serve.

These are but a few of the heroic acts that took place during FY2014. From employees who helped evacuate people from a burning building, to an employee who shoveled an elderly customer's driveway during a severe snow storm that paralyzed the region, Postal Service employees demonstrate every day that America's letter carriers deliver much more than simply the mail; they are public servants and trusted friends of the community.

Wheeling, WV, Letter Carrier John Smith

Allentown, PA, Letter Carrier Cynthia Rodriguez

Buffalo, NY, Letter Carrier David Napora

Connecting Senders and Receivers.

The Postal Service delivers 513 million mailpieces and picks up 700,000 packages on a typical day. Our commitment to continuing that service won't change — even while we are changing in some important and fundamental ways.

We're aggressively and effectively responding to the tremendous external changes we've seen in technology use and marketplace mailing trends, and we're taking the necessary steps to get back on a sound financial footing. While we still have to resolve major issues relating to our business model and legislative constraints, we are far from being an organization with insurmountable challenges. We know that America is counting on us — and we're going to keep delivering.

In 2014, the Postal Service made significant progress in the many ways it serves its customers and performs as a business, which includes driving product and service innovations and network efficiencies, becoming more data-centric and technology-centric and empowering its workforce and delivery platform. All these changes will enable the Postal Service to compete for customers and better serve the public far into the future.

This is our vision, and the entire organization is poised to achieve it.

Strong and Vibrant.

Growing Stronger

Increasingly, Americans are seeing the value in Postal Service shipping services, and with more consumers shopping online, the Postal Service wants to become America's shipper of choice. To enhance our package services to customers, the Postal Service in 2014 strategically launched and expanded same-day delivery, Sunday delivery, parcel lockers, delivery customization and real-time tracking, proving that we have the people, the network and the logistical expertise to deliver to every address in the nation.

Building for the Future

The Postal Service is in the process of creating a lean, highly efficient and technology-centric operational and logistical footprint that will sustain the organization and the mailing and shipping industry for decades to come.

In 2014, the Postal Service expanded Lean Mail Processing from a pilot site in South New Jersey to all processing plants. Lean Mail Processing improves operations by removing wasted time, movement and process, resulting in reductions in cycle time and cost while improving service.

Making Same-Day Delivery a Reality

To better serve busy customers, the Postal Service pilot-tested MetroPost, a same-day delivery service in San Francisco, CA, during FY2013. The service is being pilot-tested in the New York City area.

With MetroPost, consumers can order products from participating retailers and have them delivered by the Postal Service later that same day. If customers buy merchandise by 2 p.m., we generally deliver it between 4 and 8 p.m.

The participating retailers offer a range of products, including flowers, gift baskets and gourmet treats. The Postal Service will evaluate results of the test to decide whether and how to continue the service.
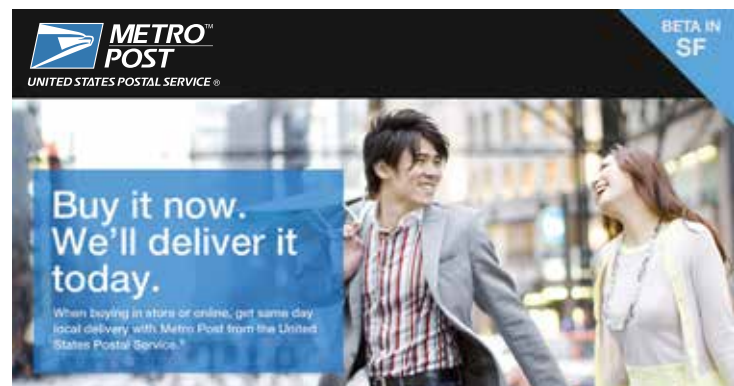
Putting Customers First.

Here to Help

The customer is at the center of all our efforts, and improvement of the customer experience continues to be a key goal for the Postal Service. To better serve our customers, the Postal Service has opened four Customer Care Centers throughout the country since the fall of 2012. These centers are located in Troy, MI; Los Angeles, CA; Edison, NJ; and Wichita, KS.

The centers receive calls to 1-800-ASK-USPS, our national, customer-care line. Calls are handled by knowledgeable Postal Service employees who are trained to answer questions and offer useful tips and suggestions. On average, the Customer Care Centers are handling 209,000 calls daily.

In 2014, the Postal Service also continued to improve all employee training programs to emphasize the importance of being friendly, courteous and helpful.

Delivering When Customers Need it Most

Postal Service employees worked hard during the 2013 holiday season to make sure millions of packages, cards and letters reached their destinations on time. During the period of Dec. 1–25, the Postal Service processed 19 percent more packages than during the same period in 2012. We also delivered during extreme weather events and in the wake of natural disasters, such as the wildfires that took place in southern California.

Customer Service Is Job One

Positive customer experiences generate overall customer satisfaction, which is why serving the needs of our customers is the focus of all our efforts. To that end, we listen to our customers and welcome their feedback on products, services and programs. As we change how we interact with customers — both large and small, and residential and business — our goal is to continue to provide the best possible customer experience while creating and reinforcing a culture of employee responsiveness.

Providing Business Solutions

The Postal Service has the privilege and responsibility of delivering to every address in America, making us a valuable resource for America's businesses. We help companies grow by putting useful information about their products and services directly into the hands of consumers. Whatever the business mail need, the Postal Service will work with them to help find a business mail solution.

Change Is Happening.

Maintaining Access

Recognizing how important it is to maintain Post Office access in America's communities, the Postal Service began implementing its POStPlan in 2012 to keep low-volume Post Offices open by realigning window hours based on customer use. With an expected completion date of January 2015, POStPlan has adjusted the hours of more than 9,700 Post Offices. So far, these changes have saved us more than $236 million in annual costs while maintaining access to those important communities.

Additionally, we've held nearly 13,000 meetings with community members to discuss new hours of operations, as well as alternatives. Communities also can ask for services to be transitioned to a nearby Post Office, or they may use rural carriers or highway contract routes.

Keeping Mail Affordable

The Postal Service is adjusting its size to align with our customers' needs to keep mail affordable. This means making better use of space, staffing, equipment and transportation.

In 2012, 2013 and 2014, the Postal Service consolidated 143 mail processing facilities. This rationalization of our network was highly successful, and resulted in negligible service impact, required no employee layoffs and generated annual cost savings of approximately $865 million. In 2014, the Postal Service announced that it would begin Phase 2 of its network rationalization of mail processing facilities in early 2015.

After peaking at 213.1 billion in 2006, mail volumes declined to 155.4 billion in 2014. Consequently, we don't need as many mail processing facilities as we once did and have consolidated more than 350 mail processing facilities since 2006.

We've also consolidated or reduced more than 22,000 city delivery routes since 2007, including 802 in 2014. This reduces compensation and gasoline costs, as well as wear and tear on Postal Service vehicles.

Fresh Ideas
In an effort to meet our customers' changing needs and build on the success of our package delivery business, which has grown significantly over the past four years, the Postal Service began testing in 2014 the feasibility of delivering groceries — including fresh foods — in some communities. The two-month operational test began in August in San Francisco with Amazon. Through the service, customers can order groceries and the Postal Service will deliver them early the next day, between 3 a.m. and 7 a.m. In September, the Postal Service requested permission from the Postal Regulatory Commission (PRC) to conduct a two-year market test delivering groceries. If the PRC approves the proposal, the Postal Service would begin the deliveries in November 2014 and expand nationwide, focusing on major metropolitan areas.

Changing, Improving and Growing
In 2014, the Postal Service implemented new corporate policies, products and services, notable pilot projects, digital offerings, beneficial network changes and activities intended to drive growth. From significant Priority Mail service enhancements, better data and visibility for business customers, pilot projects associated with grocery delivery, Sunday delivery, retail partnerships and solutions for small businesses, the Postal Service is continually seeking to better meet customer needs.

Quick, Easy and Convenient.

Bringing Our Store to Your Door

In 2014, we introduced *My USPS.com*, an online tool that allows customers to see the status of their packages — throughout key points in the delivery process — in one place. Customers also can manage these packages by requesting delivery updates via email or text message, providing delivery instructions on certain packages or requesting redeliveries, if needed.

Always Open

An online Post Office at your fingertips, the Postal Service's retail website — *usps.com* — is open for business 24 hours a day, 7 days a week. One of the most frequently visited government sites, *usps.com* enables customers to print

shipping labels, locate Post Offices, look up ZIP codes, update address information and purchase stamps, among other services. In 2014, we improved *usps.com* by making it significantly more streamlined and easier to use. Thanks to *usps.com*, doing business with the Postal Service online has never been easier.

Innovating to Meet Customer Needs

In 2014, the Postal Service began deploying new mobile delivery devices to its letter and rural carriers. These devices offer real-time scanning, making it possible for customers to receive text messages as soon as mailpieces arrive in their mailboxes. The Postal Service also is investing in geo-fencing, which creates a digital address
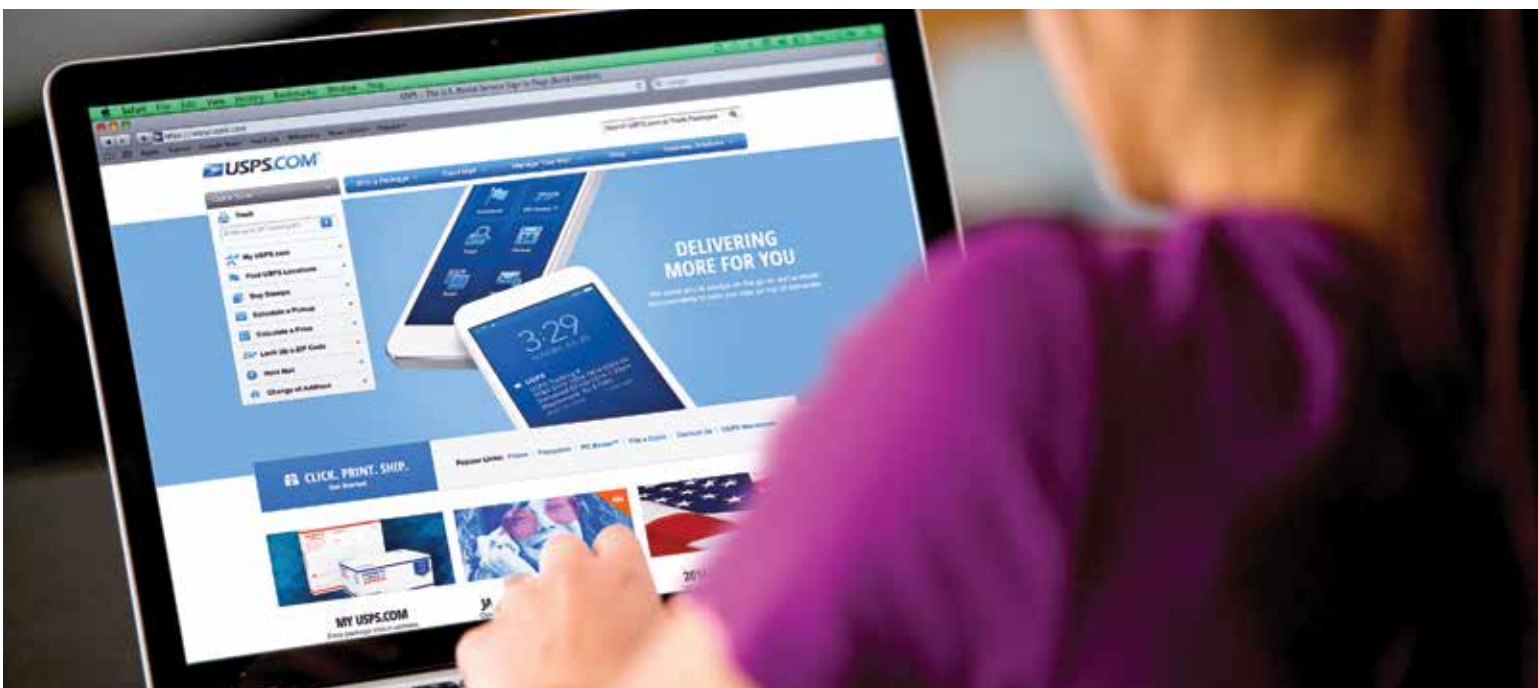
for every delivery point in the nation. These new technologies enable us to provide great new services to consumers, and they help us provide rich data to mailers and shippers — so they can know exactly when their mailpieces arrive.

Driving Growth
Through highly effective marketing efforts, smart product development, pricing and promotion, the Postal Service is driving growth in key parts of its business. Moreover, the success of products like Every Door Direct Mail and enhancements to Priority Mail have been building a strong track record of developing popular products and bringing them to market.

It Takes a Village
In FY2014, the Postal Service opened more than 400 Village Post Offices (VPOs), located inside convenience stores, markets and other neighborhood businesses.

VPOs offer the most popular Postal Service products and services, including PO Boxes, Forever stamps and prepaid shipping envelopes. Often, the hours are longer than regular Post Offices, making VPOs a convenient option for customers.

Forty-seven states now have at least one VPO. The Postal Service plans to open more in 2015.

Where Our Customers Are, Where Our Customers Want Us to Be
In 2014, the Postal Service and Staples tested offering postal products and services inside Staples stores. As a result, Staples is now part of the Postal Service's long-established Approved Shipper Program. Approved Shipper locations offer the most commonly requested shipping and mailing services, including domestic and international Priority Mail, Priority Mail Express and First-Class Mail.

(L-R) Haiku Postmaster Tom Cooley, Hanzawa's Variety Store owner Darren Jones, Honolulu District Manager Greg Wolny and Manager of Post Office Operations Felix Bagoyo opened the VPO.

Doing the Right Thing.

Going Green, Saving Green
The Postal Service is actively integrating environmental business practices into day-to-day operations. We understand that our customers also prioritize sustainability, and we want to do our part to be a good neighbor and help them reach their green goals.

We've decreased energy use at our facilities by 33 percent since 2003. We did this through a combination of energy audits, improvements to facility infrastructure and by mobilizing more than 1,300 employee-led Lean Green Teams throughout the Postal Service.

Since 2008, we've cut our greenhouse gas emissions by 12 percent, or 1.6 million metric tons. This reduction is comparable to the Postal Service using 3 million fewer barrels of oil. We've also diverted approximately 40 percent of solid waste to recycling since 2008 and have begun to implement a program that will increase this number to nearly 95 percent over the next five years.

Celebrating America's History and Culture
A highly visible presence in every community, the Postal Service connects people to their country through the release of its Limited Edition stamps. With stamp subjects including Lunar New Year, Shirley Chisholm, Medal of Honor, Farmers Markets, the War of 1812, Celebrity Chefs and Harvey Milk, the 2014 stamp program reflected the diversity of our history and culture and is something that all Americans can be tremendously proud of.

Caring for Others
Through charitable activities such as the National Association of Letter Carriers' food drive and the Delivering the Gift of Life program, as well as participation in hundreds of charities through the Combined Federal Campaign and regular engagement in local business and civic organizations, the Postal Service reinforces the spirit of community that exemplifies its commitment to public service.

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EXPRESS MAIL™
SERVICE, WITH
A NEW NAME

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Secure. Simple. Personal.

Working Hard to Protect Privacy

As we do business with our customers — from the largest mailers to individual households — the Postal Service takes the safeguarding of the consumer and employee data entrusted to us very seriously. Late in FY2014, we learned of a cyber-security intrusion into some of our information systems. Although the investigation is still ongoing at the time of this report, we are working closely with the Federal Bureau of Investigation, Department of Justice, the USPS Office of Inspector General, the Postal Inspection Service and the U.S. Computer Emergency Readiness Team to ensure the security of our systems and prevent any future incidents. All operations of the Postal Service are functioning normally.

Priority: You

Capitalizing on the strong growth of its shipping business, the Postal Service launched major upgrades in FY2014 to its domestic service Priority Mail, with features including free insurance, improved USPS Tracking and day-specific delivery information. The Postal Service has experienced strong growth in revenue from its packaging and shipping product line, and as e-commerce growth continues to increase the reliance on delivery services for consumers and businesses, the Postal Service expects its package and shipping business to achieve further revenue growth.

A Transparent Mail Process

The Postal Service continues to work hard to make it possible for customers to "see" their mail as it moves through our system.

Our goal is to ensure every piece of mail contains a barcode so we can scan it and provide enhanced visibility to our customers. We'll transmit this data online so senders and receivers alike can track their mailpieces.

To date, the Postal Service has deployed more than 200,000 wireless Intelligent Mail Devices, which provide customer tracking data within 15 minutes. We are in the process of replacing the older devices with our new mobile delivery device, which will enable customer updates within 5 minutes.

In addition to adding value to the mail and better equipping us to compete in the marketplace, our scanning success also will help us improve logistics and become more efficient.

Targeting Customers

It's never been easier to use Every Door Direct Mail service, which allows companies to choose the customers who will receive mail about their products and services. Easy, targeted, flexible, measurable, affordable, personal and effective, Every Door Direct Mail has become one of our most popular products since it was launched in 2011, as retailers and merchants use it to put coupons, menus and promotional calendars in the hands of potential customers.

In FY2014, the Postal Service launched new features to the Every Door Direct Mail online tool, including new customer demographic data, a quick-check tool to inspect size dimensions for the mail and a larger online map. Currently, more than 300,000 small businesses are using Every Door Direct Mail service.

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What's Needed.

An engine of business activity and growth, the Postal Service — which receives no tax dollars for operating expenses and relies on the sale of postage, products and services to fund its operations — plays a vital role within the American economy and requires a more flexible business model to become financially stable and meet its universal service obligations to the American people. The Postal Service is urging Congress to pass comprehensive postal legislation. Among the provisions we seek are those needed to ensure that the Postal Service is self-sustaining and financially strong as well as a reliable, low-cost partner to the American people and the communities it serves. These provisions include:

- Require within the Federal Employees Health Benefit Program a set of specific health care plans that would fully integrate with Medicare and virtually eliminate the retiree health benefits unfunded liability.

- Adjust the FERS payment amount using Postal Service-specific demographic and salary growth assumptions and refund any existing surplus.

- Adjust delivery frequency (six-day packages/five-day mail).

- Streamline governance model and eliminate duplicative oversight.

- Provide authority to expand products and services.

- Require defined contribution retirement system for future Postal Service employees.

- Require arbitrators to consider the financial condition of the Postal Service.

- Reform Workers' Compensation.

- Allow the Postal Service the right to appeal EEOC class action decisions to Federal Court.

The Postal Service continues to do its part within the bounds of existing law to place the organization in a favorable financial position, and we are proud of the achievements we have made to reduce costs while significantly growing our package business. Despite these efforts, however, we cannot return the Postal Service to profitability, nor can we secure our long-term financial outlook without the passage of comprehensive reform legislation.

The bottom line is that the Postal Service is ready to make the necessary changes to keep delivering for America. We just require the freedom to make it happen.

Changing and Improving.

The Postal Service is continually enhancing its products and services to better meet customer needs and make it easier to do business with us.

In 2014, the Postal Service began piloting Mobile Point of Sales (mPOS), which is designed to reduce wait-time-in-line in Post Offices and improve the customer's overall retail experience for routine transactions. Using a modified iPod hand-held device and a printer, this new technology enables lobby assistants to scan and accept pre-paid packages, scan package pickups as delivered or sell stamps, ReadyPost and other retail products. Retail associates also can use mPOS to sell Priority Mail flat-rate postage. With mPOS, lobby assistants can greet and assist many customers with simple transactions, allowing them to "swipe and go."

Also in 2014, the Postal Service launched new Priority Mail service offerings with improved tracking, text alerts and expanded Sunday delivery. Each of these enhancements complements our existing free insurance, free tracking and date-specified delivery that were introduced last year.

Additionally, in light of today's changing mail mix — declining letter mail and increasing package volume — as well as the increase in online ordering, the Postal Service has been working with Amazon to deliver packages to their stand-alone parcel lockers, which provide greater convenience and security for our customers. The lockers eliminate the need to leave packages outside customers' residences, where they can be susceptible to the elements and to theft.

The Board of Governors.
United States Postal Service

As the governing body of the Postal Service, the 11-member Board of Governors has responsibilities comparable to the board of directors of a publicly held corporation. The Board is made up of nine Governors appointed by the President of the United States with the advice and consent of the Senate. No more than five Governors can be members of the same political party. The Board currently has five seats vacant.

The other two members of the Board are the Postmaster General and the Deputy Postmaster General. The Governors appoint the Postmaster General, who serves at their pleasure without a specific term of office. The Governors, together with the Postmaster General, appoint the Deputy Postmaster General.

Mickey D. Barnett
Chairman of the Board of Governors since December 2012. Vice Chairman of the Board of Governors, 2011. Member of the Audit and Finance Committee and the Compensation and Management Resources Committee. Attorney in Albuquerque, New Mexico. Former member, New Mexico State Senate. Former member, Appellate Nominating Commission for the New Mexico Supreme Court and the Court of Appeals Nominating Commission. Former legislative assistant to Senator Pete Domenici of New Mexico.

James H. Bilbray
Vice Chairman of the Board of Governors since December 2012. Member of the Compensation and Management Resources Committee. Attorney at the law firm of Kaempfer Crowell Renshaw Gronauer & Fiorentino in Las Vegas, Nevada. Former member, U.S. House of Representatives from Nevada. Former member, Nevada State Senate. Former Deputy District Attorney in Clark County, Nevada. Member of 2005 Defense Base Closure and Realignment Commission.
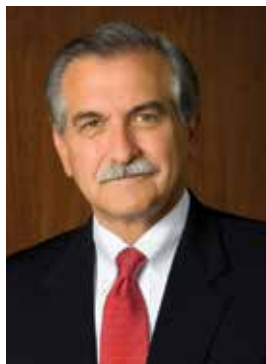
Louis J. Giuliano

Past Chairman of the Board of Governors, 2010 and 2011. Vice Chairman of the Board of Governors, 2009. Chairman, Audit and Finance Committee and Operations Subcommittee, and member, Compensation and Management Resources Committee. Former Chairman of the Board of Directors, Chief Executive Officer and President of ITT Corp. Senior Advisor to The Carlyle Group. Member of the Board of Accudyne Industries. Active member of the CEO Forum and the Advisory Board for the Princeton University Faith and Work Initiative and a Founder of Workforce Ministries. Prior Board positions include Engelhard Corp., ServiceMaster and JMC Steel Group. Non-executive Chairman of the Board of Vectrus Corporation and Chairman of Meadowkirk Retreat Center.

Ellen C. Williams

Chairman of the Compensation and Management Resources Committee and a member of the Audit and Finance Committee. Partner in MML&K, a government relations firm with offices in Frankfort, KY, and Washington, DC. Former owner and CEO of Capital Network. Former Vice Chairman of the Kentucky Public Service Commission from 2004 to 2005. Former Commissioner of the Governor's Office for Local Development in Kentucky from 2005 to 2006. Former Chairman of the Republican Party of Kentucky from 1999 to 2004. Former executive assistant to Senator Bob Kasten.

Patrick R. Donahoe

73rd Postmaster General and Chief Executive Officer since December 2010 and a member of the Board of Governors since April 2005. Deputy Postmaster General and Chief Operating Officer from April 2005 until December 2010. Chief Operating Officer and Executive Vice President during the years 2001 to 2005. Senior Vice President, Operations from February 2001 to September 2001.

Ronald A. Stroman

20th Deputy Postmaster General and member of the Board of Governors of the United States Postal Service since April 2, 2011. Served as Minority Staff Director, Committee on Oversight and Government Reform at the U.S. House of Representatives, from 2009 to April 2011. Prior to this, served as Managing Director, Office of Opportunity and Inclusiveness, U.S. General Accounting Office, from 2001 to 2009.

The Executive Leadership Team.
United States Postal Service

The Executive Leadership Team (ELT) of the U.S. Postal Service is a decision-making body whose members serve as senior advisors to the Postmaster General. The ELT considers and sets the strategic agenda.

Patrick R. Donahoe
Postmaster General and Chief Executive Officer

Ronald A. Stroman
Deputy Postmaster General

Megan J. Brennan
Chief Operating Officer and Executive Vice President

James P. Cochrane
Chief Information Officer and Executive Vice President

Joseph Corbett
Chief Financial Officer and Executive Vice President

Nagisa Manabe
Chief Marketing and Sales Officer, Executive Vice President

Thomas J. Marshall
General Counsel and Executive Vice President

Jeffrey C. Williamson
Chief Human Resources Officer and Executive Vice President

Other Officers.
United States Postal Service

Drew T. Aliperto
Vice President, Area
Operations (Western)

Michael J. Amato
Vice President, Engineering
Systems

Mitzi R. Betman
Vice President, Corporate
Communications and
Chief of Staff

Susan M. Brownell
Vice President, Supply
Management

William A. Campbell
Judicial Officer

Robert Cintron
Vice President, Product
Information

Joshua D. Colin
Vice President, Area
Operations (Eastern)

Guy J. Cottrell
Chief Postal Inspector

John T. Edgar
Vice President, Information
Technology

Jo Ann Feindt
Vice President, Area
Operations (Southern)

Rosemarie Fernandez
Vice President, Employee
Resource Management

Dean J. Granholm
Vice President, Area
Operations (Pacific)

Jacqueline Krage Strako
Vice President, Area
Operations (Great Lakes)

Maura A. McNerney
Vice President, Controller

Pritha N. Mehra
Vice President, Mail Entry and
Payment Technology

Sheila Meyers
Acting Vice President,
Government Relations and
Public Policy

Randy S. Miskanic
Vice President, Secure Digital
Solutions

Julie S. Moore
Secretary of the Board of
Governors

Shaun E. Mossman
Vice President, Finance
and Planning

James A. Nemec
Vice President, Consumer
and Industry Affairs

Edward F. Phelan, Jr.
Vice President, Delivery
Operations

Gary C. Reblin
Vice President, New Products
and Innovation

Cliff Rucker
Vice President, Sales

Tom A. Samra
Vice President, Facilities

Cynthia Sanchez-Hernandez
Vice President, Pricing

Kristin Seaver
Vice President, Area
Operations (Capital Metro)

Kelly M. Sigmon
Vice President, Retail and
Customer Service Operations

Douglas A. Tulino
Vice President, Labor
Relations

Richard P. Uluski
Vice President, Area
Operations (Northeast)

Giselle E. Valera
Vice President and Managing
Director, Global Business

David E. Williams
Vice President, Network
Operations

FY2014 Annual Performance Report and FY2015 Performance Plan.

Mission and Vision

Our mission of providing a universal delivery service to bind the nation together was established in the Constitution. It has been the foundation of Postal Service policy for over 200 years. Our vision has always been focused on continually adapting to best meet the changing needs of the nation and our customers.

Mission: The Postal Service mission is to provide a reliable, efficient, trusted and affordable universal delivery service that connects people and helps businesses grow.

Vision: The Postal Service is dedicated to improving its services, products and capabilities to adapt to the changing needs of customers in the digital age.

Document Purpose and Structure

The U.S. Postal Service is dedicated to transparency and effectively communicating to our numerous stakeholders. Key among them are the commercial and residential customers whom we serve, legislators and regulators who provide oversight and ensure transparency and performance and employees who deliver world-class service.

In addition to communicating performance to our stakeholders, this report satisfies the public reporting requirements contained in Title 39

U.S.C. § 2401(e), § 2402, § 2803 and § 2804, along with the Postal Accountability and Enhancement Act (PAEA) of 2006 Section 3652. These regulations require the Postal Service to provide an *Annual Report to Congress*, an *Annual Performance Report*, a *2014 Comprehensive Statement of Postal Operations* and an *Annual Performance Plan*. This report covers the Postal Service performance for the 2014 Fiscal Year (October 1, 2013 to September 30, 2014) and reviews the Postal Service's plans for the 2015 Fiscal Year (October 1, 2014 to September 30, 2015).

The *2014 Annual Performance Report* and *2015 Performance Plan* present an array of metrics the Postal Service uses to measure performance across the organization. These metrics provide visibility across a number of critical functions: delivery service, financial performance, workplace environment and customer experience.

The *2014 Comprehensive Statement on Postal Operations* provides a more detailed description of the key organizational developments in the last fiscal year and the key initiatives underway that support the corporate goals for the next fiscal year.

Related Reporting Requirements

The U.S. Postal Service is among the most transparent organizations in the world. Legislation and regulation require the USPS to disclose

operational and financial information beyond that demanded of federal government agencies and private sector companies.

The Postal Service is not a reporting company under the *Securities Exchange Act of 1934* (the Exchange Act), as amended, and is not subject to regulation by the Securities and Exchange Commission (SEC). However, it is required under P.L. 109-435 to file with the Postal Regulatory Commission (PRC) certain financial reports containing information prescribed by the SEC under Section 13 of the Exchange Act. These reports include annual reports on Form 10-K (which are audited by an Independent Registered Public Accounting Firm), quarterly reports on Form 10-Q and current reports on Form 8-K. These reports are available at *about.usps.com/who-we-are/financials/welcome.htm*.

Title 39 of the United States Code and the PRC mandate further disclosures of the Postal Service, its operations and finances. These requirements include Cost and Revenue Analysis, Revenue, Pieces and Weight reports and financial and strategic plans. These disclosures are reviewed by the PRC but are outside the scope of our Independent Registered Public Accounting Firm. These can be found online at *about.usps.com*.

We make available on our website, free of charge, electronic copies of our recent annual, quarterly and current reports filed on Forms 10-K, 10-Q and 8-K, respectively, as soon as reasonably practicable after they are filed with or provided to the PRC. Requests for copies may also be sent to the following address:

Corporate Communications
United States Postal Service
475 L'Enfant Plaza, SW
Washington, DC 20260-3100

U.S. Postal Service FY2014 Results and FY2015 Targets for Corporatewide Goals

The Postal Service has established a core set of enduring goals that provide a guide for all our strategic initiatives and continuous improvement efforts:

- Deliver High-Quality Services

- Provide Excellent Customer Experiences

- Ensure a Safe and Healthy Workplace

- Sustain Controllable Income

These goals not only serve to guide how we measure corporate performance, but form the foundation of our employee pay for performance system.

Service is measured by transit time with regard to mail. Customer insights are based on a hybrid set of measurements, that taken together, present an improved view of customer satisfaction. The new survey metrics are both relational- and event-based. Financial performance is evaluated using operating income and Deliveries per Hour. Occupational Safety and Health Administration (OSHA) illness and injury rates and an employee survey, known as the Voice of the Employee, are used to assess the workplace environment.

With intricate metrics established to track performance and report results, leadership is able to be vigilant in decision making to consistently improve operations and the workplace environment. FY2014 performance results and targets for FY2015 are provided on the next page.

Deliver High-Quality Services

The Postal Service routinely measures service performance in terms of speed and reliability as part of its commitment to improving performance for its customers. Of particular focus are First-Class Mail Overnight, Two-Day and Three-to-Five Day Service, which are among the most widely used mail categories. Individual consumers, small businesses and larger commercial firms all rely on First-Class Mail, which comprises nearly all parts of the Postal Service's operations and supply chain, from collection boxes and retail counters to final delivery. In FY2014, the Postal Service continued to measure service performance through a combination of both Single-Piece First-Class and Commercial First-Class performance for an aggregate of Overnight, Two-Day and Three-to-Five Day Service. Single-Piece First-Class Mail International provides a measure of the domestic leg of travel for Single-Piece International mail and may increasingly be assessed in FY2015 and beyond.

The Postal Service has contracted an independent third-party entity since 1990 to objectively measure performance for Single-Piece First-Class Mail via the External First-Class Mail (EXFC) system. This external sampling system measures the time it takes from when mail is deposited in a collection box or lobby chute to when it is delivered at a home or business. Performance is measured in 892 ZIP Codes for Single-Piece First-Class Mail cards, letters and flat envelopes. Service performance for Single-Piece First-Class Mail parcels, which is

measured using an internal Postal Service system, is combined with EXFC performance to generate overall Single-Piece First-Class Mail results.

Similarly, Presort First-Class Mail in FY2014 was measured through a hybrid measurement approach that combined Full-Service Intelligent Mail data from commercial mailers and relied on data collection by an external entity. This process measured the time from mail acceptance to final processing, which involved the collection of data on transit time from final processing to mail processing equipment and through to delivery. The processing and delivery data were aggregated, combined and reviewed by the external entity to measure overall commercial mail performance.

For FY2014, the Postal Service fell short of the target for Single-Piece First-Class Mail. The Presort First-Class Mail target performance score for Overnight delivery was met, but fell short for Two-Day and Three-to-Five Day delivery. Targets were not reached for the categories of Single-Piece First-Class Mail delivery and two categories of Presort First-Class. However, FY2014 performance scores have remained remarkably high and relatively stable considering the changes made in the network. A positive improvement was also realized in the service performance of Standard Mail during FY2014. Weather variability also affects year-to-year comparisons.

We have missed the past several years' targets for Service due to an aggressive work hour stretch and the hiring, training and replacement (due to turnover) of many new employees. For FY2015, we believe the completion of the Phase 2 Network Consolidation Project and the benefits of a fully trained non-career workforce to supplement our career employees will improve service and allow the Postal Service to meet its targets.

U.S. Postal Service FY2014 Results and FY2015 Targets for Corporatewide Goals

Goal	Measure	FY2015 Target	FY2014 Actual	FY2014 Target	FY2013 Actual	FY2013 Target	FY2012 Actual	FY2012 Target	FY2011 Actual	FY2011 Target
	Single-Piece First-Class Mail									
	Overnight	96.8	96	96.8	96.1	96.7	96.48	96.65	96.23	96.65
	Two-day	96.5	94.9	96.5	95.3	95.1	94.84	94.15	93.34	94.15
	Three-to-five-day	95.25	87.7	95.25	91.6	95	92.29	92.85	91.87	92.85
Deliver High-Quality Services (% on-time)	Presort First-Class Mail									
	Overnight	96.8	97	96.8	97.2	96.7	96.8	N/A	N/A	N/A
	Two-day	96.5	96.4	96.5	97	95.1	95.7	N/A	N/A	N/A
	Three-to-five-day	95.25	92.2	95.25	95.1	95	95.1	N/A	N/A	N/A
	First-Class composite[1]	96	93.6	96	N/A	N/A	N/A	N/A	N/A	N/A
	Standard composite[2]	91	86.4	91	N/A	N/A	N/A	N/A	N/A	N/A
	CEM composite (2011–2013)	N/A	CEM Sunset	CEM Sunset	78.4	82.5	79	82	70	75
	Residential (2011–2013)	N/A	CEM Sunset	CEM Sunset	82	85	82.5	85	73.45	75
	Small/medium business (2011–2013)	N/A	CEM Sunset	CEM Sunset	76.4	81	77.17	81	66.63	75
Provide Excellent Customer Service Experiences[3]	Customer Insights	82.5	Baseline	Baseline	N/A	N/A	N/A	N/A	N/A	N/A
	Business Service Network (BSN)	94	Baseline	Baseline	N/A	N/A	N/A	N/A	N/A	N/A
	POS - (Point of Sale)	90	Baseline	Baseline	N/A	N/A	N/A	N/A	N/A	N/A
	Delivery	90	Baseline	Baseline	N/A	N/A	N/A	N/A	N/A	N/A
	Customer Care Center	90	Baseline	Baseline	N/A	N/A	N/A	N/A	N/A	N/A
Ensure a Safe Workplace and Engaged Workforce	OSHA illness & injury rate[4]	5.1	6.32	5.55	5.61	5.72	5.78	5.57	6.03	5.39
	Voice of the Employee Survey	65.1	65.01	65.1	64.7	64.9	64.7	64.9	64.7	64.5
Sustain Controllable Income[5]	Deliveries per Hour	43.3	42.00	42.9	41.6	42.7	41.0	42.2	39.9	40.4
	Net Controllable Income ($ in billions)	0.5	1.37	0.9	(1.0)	(2.0)	(2.4)	(3.0)	(2.7)	(0.9)

[1] For FY2014 the service performance target will be a combination of Single-Piece First-Class and Commercial First-Class performance for an aggregate of overnight, 2-day and 3-day service.

[2] For FY2014 there is a service performance target that is a combination of Standard Mail destination entry for Sectional Center Facility (SCF) letters and National Distribution Center (NDC) letters and flats.

[3] In 2013 the Customer Experience Measurement (CEM) was replaced with a refined Customer Insights (CI) measurement system as the key measure of customer experience for our National Performance Assessment (NPA) system and our employee Pay for Performance System (PES). Last year served as the baseline measure for this new metric and compensable targets were established for FY2015.

[4] Injury and illness rate is calculated using an industrywide formula recommended by OSHA: Total number of OSHA injuries and illnesses (multiplied by 200,000 hours divided by the number of exposure hours worked by all employees). The 200,000 hours represent 100 employees working 2,000 hours per year. It provides the standard base for calculating incidence rates.

[5] FY2014 targets adjusted to reflect deferral of Network Rationalization, Phase 2.

Provide Excellent Customer Experiences

The Postal Service is dedicated to delivering excellent customer experiences to every customer at every channel touch point. In FY2013, we revamped how we measure customer experience and replaced our previous metric and measurement system, Customer Experience Measurement (CEM), with a refined Customer Insights (CI) measurement system as the key measure of customer experience for our National Performance Assessment (NPA) system and our employee Pay for Performance System (PES). Last year served as the baseline measure for this new metric and compensable targets were established for FY2015.

The CEM was sunsetted at the end of FY2013 and replaced by CI as a National Performance metric. The CI composite metric provides a more diversified view and deeper insight into our customers' experiences with USPS as a whole. The new CI composite metric is based on a hybrid set of measurements, which when taken together, present an improved view of customer satisfaction. The new survey metrics are both relational and event-based and are comprised of four key components: Point of Sale (POS), Business Service Network (BSN), Delivery (Residential/Small & Medium Business) and Customer Care Center (CCC).

The POS survey is an event-based survey that was in place during FY2013, but it was not incorporated into the Customer Experience performance. This has been integrated into the metric for FY2014. The POS survey includes all retail customers who conduct transactions at Postal Service locations with POS equipment.

The BSN survey is an event-based survey for accounts in Postal Service's CustomerFirst! database that have reported service issues. The BSN assists major mailers with the resolution of service issues and information requests. The survey measures the customer's level of satisfaction with their BSN Account Representative.

The Delivery survey is a relational/event-based survey mailed to randomly selected residential and small- and medium-sized business

customers (those with fewer than 250 employees at one site) who are asked to complete a survey online or via telephone.

The CCC survey is an event-based survey for residential customers who call the USPS Care Center at 1-800-ASK-USPS and interact with a live agent. A random sampling of all callers is afforded an opportunity to participate in the survey, which measures customer satisfaction with the agent's performance.

Providing a positive customer experience is one of the core strategies that drive overall customer satisfaction and it remains the primary focus of our improvement efforts. We continue to promote the importance of customer service and provide customer insights through monthly videos, weekly messaging, tools and resources to inform and engage employees. We have standardized the complaint-handling and resolution process by providing guidelines that give direction from initial contact through completion, with a quality resolution. Additionally, we continue to provide detailed diagnostic reports that identify Post Offices with opportunities to improve the customer experience and verbatim customer comments to provide specific feedback. We provide regular web-based information sessions to ensure our field managers know how to use these tools. Our intent is to improve processes and enhance systems in ways that support timely and thorough resolution of customer concerns and inquiries. We know that creating an organizationwide culture of responsiveness is critical in retaining our current customer base and acquiring new customers; both are essential in driving revenue growth.

Ensure a Safe Workplace and Engaged Workforce

OSHA Illness and Injury Rate – The requirements of OSHA are designed to protect Postal Service and contract employees from safety and health hazards in the workplace. All private and public sector employers are subject to OSHA regulations; however, the U.S. Postal Service is the only federal agency subjected to the assessment of citation penalties and fines for non-compliance. In FY2014, the OSHA Injury and Illness (I&I) frequency rate for the Postal Service was 6.34 per 100 employees — a 12 percent increase over last year due primarily to severe winter weather from December 2013 through February 2014. In FY2015, the Postal Service will increase focus on at-risk employees and those who are new to the organization and less familiar with safe work practices. To refine this focus, the Postal Service will enhance reporting capabilities to allow for a proactive approach in tailoring safety programs to address concerns at a local facility level. A major part of these safety programs will be designed to address ergonomic impacts associated with the lifting, handling and repetitive motions required in all aspects of delivery, especially parcel delivery. To support these safety activities, the Postal Service will be releasing a series of engaging videos titled "Safety Depends on Me" which focus on the major root causes of accidents and provide tips for prevention.

Voice of the Employee (VOE) Survey – The Postal Service highly values its employees' opinions about their work environment and the effectiveness of Postal Service programs, policies and strategies for success. In FY2014, the Postal Service took another major step towards engaging its entire workforce by extending

the opportunity to participate in the VOE survey to not just career employees, but to all Postal Service employees, including Postal Support Employees (PSEs), City Career Assistants (CCAs), Mail Handler Assistants (MHAs), Rural Carrier Assistants (RCAs) and casuals. These employees are indispensable members of our workforce. Their survey participation rate of over 70 percent is clear evidence they both desire and value the opportunity to participate in the VOE survey program.

Each year we set challenging targets for employee engagement levels. In FY2014 we experienced improvement quarter-over-quarter and improvement over the FY2013 baseline score. We achieved an end-of-year score of 65.01[1] and our employees continue to express high levels of commitment to the organization. For example, 77 percent of employees indicated they were proud to work for the Postal Service and 75 percent feel personally responsible for helping the organization succeed. The scores for each of these questions is a full percentage point higher than they were at the end of FY2013.

In FY2015, we are partnering with an employee-engagement leader to redesign our VOE survey program to help promote increased levels of employee engagement. We will create more robust reporting, analytics and innovative action-planning tools to help managers respond to their survey results.

Sustain Controllable Income

The Postal Service tracks two metrics as an indication of its financial performance. The first metric is deliveries per work hour which summarizes the effectiveness of productivity improvement efforts. The indicator is relevant, especially as the

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[1] The VOE target for FY2014 was 65.10, and the actual was 65.01, a shortfall in meeting the goal by 0.09.

organization manages a declining volume workload with a constantly increasing universal delivery network. The second metric is the Postal Service "Controllable Income (Loss)."

Deliveries per Hour

In FY2014 the target for Deliveries per Hour was 42.9. The actual result for FY2014 was 42.0 — a difference of 0.9. The FY2014 target was not achieved due to the overrun of an aggressive work hour plan. In addition, we did not capture all of planned savings associated with Phase 1. Other drivers included additional workload from Sunday package delivery, additional hours used to avoid delaying mail and to keep our network moving during the Christmas season and the hiring and training of many new non-career employees. In addition to trying to hire up to our contractual limits of non-careers, we also experienced a high turnover rate (in excess of 40 percent) for CCAs. The non-career employees are generating significant rate savings, but are costing additional hours in hiring and training them, as well as in developing needed delivery experience.

The FY2014 Deliveries per Hour target was revised from 43.3 to 42.9 to reflect the delay of Phase 2 of the Network Rationalization project.

We have missed the past several years' targets for Deliveries per Hour due to the aggressive work hour stretch. For FY2015, we believe the work hour target is much more representative of the cost-savings opportunities and anticipated growth in package workload; barring any further external delays, there are initiatives in place to achieve the FY2015 planned savings.

Net Operating Income

FY2014 had Total Revenue of $67.8 billion and Total Operating Expenses of $73.2 billion, resulting in a Net Loss of $5.5 billion.

Our operating results are impacted by items that are not under our control and that are not reflective of our normal operations. These items include the annual legally mandated PSRHBF prefunding expense, the legally-mandated participation in the federal workers' compensation program and fluctuations in workers' compensation expense due to changes in discount (interest) rates. Because these items are not typical, we believe that analyzing operating results without the impact of certain of these charges provides a more meaningful insight into current operations.

Thus, when the impact of the required prefunding payments and expenses related to the adjustment for discount rate changes on the workers' compensation liability are excluded, the income from ongoing business activities or "Controllable Income" was $1.4 billion. (See table on page 42.) The Postal Service continued to make progress in increasing revenues and cutting costs during FY2014.

The FY2014 Net Controllable Income target was also revised from $1.1 billion to $0.9 billion to reflect the delay of Phase 2 of the Network Rationalization project.

For the second year in a row, revenue increased compared to the prior year, largely as a result of the PRC-approved CPI price change and a temporary exigent surcharge increase on market dominant products that was implemented beginning in January 2014; however

mail volume continued to decrease. Revenue in Shipping and Packaging increased by 9.1 percent over the same period last year while Standard Mail revenue increased by 3.0 percent. Overall, volume declined by 2.8 billion pieces.

Operating expenses of $73.2 billion in 2014 increased 1.5 percent, from $72.1 billion in FY2013, due in large part to increases in non-cash workers' compensation expenses. These expense increases were largely offset by significant operational initiatives to improve efficiency and reduce costs. These initiatives included adjustments to our mail processing and transportation networks, adjustments to the hours of operation of retail units and delivery changes, such as the consolidation of delivery units and adjustments to delivery routes.

In June 2014, it was announced that a second phase of mail processing realignments would begin in January 2015, impacting 82 more processing locations.

The Postal Service reduced the number of career employees by approximately 3,000 in FY2014, compared to the year before.

The Postal Service still has only about 19 days of operating cash entering 2015 despite the financial and operational efforts described above.

For a full description of the financial results of the U.S. Postal Service, see the USPS 2014 Form 10-K located at *http://about.usps.com/who-we-are/financials/welcome.htm*.

Financial Performance Results

Controllable income (loss)* *(dollars in millions)*	FY2014	FY2013	FY2012	FY2011
Net loss	$ (5,508)	$ (4,977)	$ (15,906)	$ (5,067)
Impact of:				
Discount rate changes related to workers' compensation liability	485	(1,745)	346	978
Other non-cash workers' compensation expense	697	1,434	1,995	1,389
PSRHBF expense	5,700	5,600	11,100	—
Change in accounting estimate[1]	—	(1,316)	—	—
Controllable income (loss)*	$ 1,374	$ (1,004)	$ (2,465)	$ (2,700)

[1] *The 2013 change in accounting estimate resulting from new data analytics which revised the estimated liability associated with deferred revenue-prepaid postage for Forever stamps.*
*Controllable income (loss) excludes the impact of certain workers' compensation adjustments, PSRHBF prefunding expense and the change in accounting estimate from net loss.

Operating Statistics and Historical Summary of Financial Performance

Operating Statistics
Revenue, Pieces and Weight Statistics

(in millions of units indicated, unaudited)

	FY2014	FY2013	FY2012
First-Class Mail[1]			
Revenue	$ 28,335	$ 28,110	$ 28,856
Number of pieces	63,603	65,754	68,674
Weight, pounds	3,165	3,194	3,295
Standard Mail[2]			
Revenue	$ 17,428	$ 16,915	$ 16,428
Number of pieces	80,311	80,806	79,496
Weight, pounds	8,102	8,298	8,300
Shipping and Packages services[3]			
Revenue	$ 13,743	$ 12,597	$ 11,592
Number of pieces	4,015	3,715	3,501
Weight, pounds	6,541	5,956	5,729
International Mail			
Revenue	$ 3,024	$ 3,016	$ 2,816
Number of pieces	899	902	926
Weight, pounds	456	455	463
Periodicals			
Revenue	$ 1,625	$ 1,658	$ 1,731
Number of pieces	6,045	6,359	6,741
Weight, pounds	2,275	2,422	2,535
U.S. Postal Service			
Number of pieces	454	631	440
Weight, pounds	114	150	145
Free matter for the blind			
Number of pieces	48	55	57
Weight, pounds	21	23	26
Other services[4]			
Revenue	$ 3,609	$ 3,583	$ 3,656
Deferred Revenue – Prepaid Postage[5]		$ 1,316	
Postal Service totals			
Operating revenue	$ 67,764	$ 67,195	$ 65,079
Number of pieces	155,375	158,222	159,835
Weight, pounds	20,674	20,498	20,493

Note: *The totals for certain mail categories for the prior year have been reclassified to conform with classifications used in the current year. Other revenue is no longer included in this schedule.*
[1]*Excludes First-Class Mail Parcels.*
[2]*Excludes Standard Mail Parcels.*
[3]*Includes Priority Mail, Standard Post, Parcel Select Mail, Parcel Return Service Mail, Standard Parcels, Package Service Mail, First-Class Mail Parcels, First-Class Package Service and Priority Mail Express.*
[4]*Includes PO Box Services, Certified Mail, Return Receipts, Insurance, Other Ancillary Fees, Shipping and Mailing Supplies and Other services.*
[5]*The 2013 change in accounting estimate resulting from new data analytics which revised the estimated liability associated with deferred revenue-prepaid postage for Forever stamps.*

Operating Statistics

Shipping and Packages Services Statistics

(in millions of units indicated, unaudited)

	FY2014	FY2013	FY2012
Priority Mail Express			
Revenue	$ 760	$ 794	$ 802
Number of pieces	36	39	40
Weight, pounds	37	38	41
First-Class Packages[1]			
Revenue	$ 2,053	$ 1,771	$ 1,523
Number of pieces	868	792	704
Weight, pounds	291	263	230
Priority Mail[2]			
Revenue	$ 7,376	$ 7,020	$ 6,662
Number of pieces	956	924	892
Weight, pounds	2,206	2,146	2,093
Parcel Select Mail			
Revenue	$ 2,597	$ 2,079	$ 1,644
Number of pieces	1,550	1,367	1,243
Weight, pounds	2,623	2,120	1,880
Parcel Return Service Mail			
Revenue	$ 139	$ 123	$ 115
Number of pieces	56	51	47
Weight, pounds	171	153	140
Package Services			
Revenue	$ 818	$ 810	$ 846
Number of pieces	549	542	575
Weight, pounds	1,213	1,236	1,345
Total shipping and package services			
Revenue	$ 13,743	$ 12,597	$ 11,592
Number of pieces	4,015	3,715	3,501
Weight, pounds	6,541	5,956	5,729
Ancillary and special services			
Certified Mail			
Revenue	$ 687	$ 715	$ 663
Number of articles	213	234	227
Return Receipts			
Revenue	$ 369	$ 356	$ 399
Number of articles	157	157	170
USPS Tracking			
Revenue	$ 84	$ 68	$ 244
Number of articles	2,931	2,352	1,819
PO Box rent revenue	$ 902	$ 889	$ 836
Money Orders			
Revenue	$ 164	$ 155	$ 165
Number of articles	97	103	109
Insurance			
Revenue	$ 92	$ 108	$ 109
Number of articles	20	28	30
Shipping and mailing supplies			
Revenue	$ 117	$ 123	$ 118
Number of articles	59	63	70
Other services revenue	$ 1,194	$ 1,169	$ 1,122
Total other services revenue	$ 3,609	$ 3,583	$ 3,656

Note: *The totals for certain mail categories for the prior year have been reclassified to conform with classifications used in the current year. These reclassifications did not impact total Shipping and Packages revenue for prior years.*
[1]Includes Standard Post which is a retail-only product classified as Market-Dominant. Standard Post is priced identically to Priority Mail for Zones 1-4 and is functionally equivalent to Priority for those Zones.
[2]Includes First-Class Mail Parcels and First-Class Package Services.

Operating Statistics
Post Office and Delivery Points

(in actual units indicated, unaudited)

	FY2014	FY2013	FY2012
Post Offices, stations and branches			
Postal-managed			
Post Offices	26,669	26,670	26,755
Classified stations, branches and carrier annexes	4,993	5,032	5,102
Total Postal-managed	31,662	31,702	31,857
Contract Postal Units	2,660	2,718	2,792
Village Post Offices	759	385	47
Community Post Offices	560	629	673
Total offices, stations and branches	35,641	35,434	35,369
Residential delivery points			
City delivery	81,650,586	81,297,883	81,040,591
Rural	40,750,668	40,111,620	39,449,400
PO Box	15,858,668	15,882,717	15,994,508
Highway contract	2,774,213	2,736,005	2,678,508
Total residential delivery	141,034,135	140,028,225	139,163,007
Business delivery points			
City delivery	7,592,773	7,554,231	7,525,979
Rural	1,554,422	1,524,741	1,493,644
PO Box	3,634,467	3,738,314	3,889,964
Highway contract	76,179	74,922	73,957
Total business delivery	12,857,841	12,892,208	12,983,544
Total delivery points	153,891,976	152,920,433	152,146,551
Change in delivery points	971,543	773,882	654,560

Financial History Summary

(dollars in millions)

	FY2014	FY2013	FY2012
Operating results			
Total revenue	$ 67,830	$ 67,318	$ 65,223
Operating expenses			
Compensation and benefits	46,000	46,708	47,689
Retiree health benefits*	8,685	8,450	13,729
Workers' compensation	2,554	1,061	3,729
All other operating expenses	15,939	15,909	15,817
Loss from operations	$ (5,348)	$ (4,810)	$ (15,741)
Interest, net	(160)	(167)	(165)
Net loss	$ (5,508)	$ (4,977)	$ (15,906)
Financial position			
Cash and cash equivalents	$ 4,906	$ 2,326	$ 2,087
Property and equipment, net	16,338	17,512	18,863
All other assets	1,718	1,803	1,661
Total assets	$ 22,962	$ 21,641	$ 22,611
Accrued retiree health benefits	$ 22,417	$ 16,766	$ 11,205
Workers' compensation liability	18,422	17,240	17,567
Debt	15,000	15,000	15,000
All other liabilities	12,454	12,458	13,685
Total liabilities	$ 68,293	$ 61,464	$ 57,457
Total net deficiency	$ (45,331)	$ (39,823)	$ (34,846)

*Due to the passage of P.L. 112-33 which changed the due date of the scheduled PSRHBF prefunding payment of $5.5 billion originally due by September 30, 2011 into 2012, PSRHBF expenses were zero in 2011. As a result, total PSRHBF expenses in 2012, including the previously scheduled prefunding payment of $5.6 billion due by September 30, 2012, were $11.1 billion. PSRHBF prefunding expense was $5.6 billion and $5.7 billion in 2013 and 2014, respectively.

FY2014 Comprehensive Statement on Postal Operations.

I. Successfully Competing for the Package Business

Americans, like the rest of the world, are embracing eCommerce and demanding new options for the fulfillment of their delivery needs. Shipping companies, poised to deliver upon these expectations, will experience growth in volume and revenue as the evolution of the eCommerce retail market continues. eMarketer analysts forecast that eCommerce will continue to increase in the double digits year-over-year to bring its share of overall U.S. retail sales to 9 percent, or $490 billion, by the end of 2018[2]. The rise of eCommerce, coupled with the decline of brick and mortar stores, will further benefit the shipping industry.

eCommerce sellers, also known as eTailers, evaluate shipping carriers by three criteria: end-to-end visibility; fast, reliable delivery; and cost. An independent study of shipping trends conducted by *stamps.com* "Who's Winning the Shipping War?" indicates that the U.S. Postal Service has dramatically improved its position in the marketplace in regards to all three of the eTailers criteria. This achievement has been accomplished by introducing specially designed

flat rate Priority Mail boxes in a variety of sizes, free insurance and tracking, enhanced scanning at more checkpoints, day-certain delivery, Saturday delivery without any surcharge, real-time scanning and Sunday delivery in over 20 major metropolitan markets.

To meet the expectations of a hyper-competitive shipping market, the Postal Service is committed to delivering new value for our customers and becoming a carrier of choice for all eTailers. The USPS has renewed its focus to win the business of major players in this segment and is improving its operational and technical capability to stay atop the requirements of online sellers.

According to the *stamps.com* study, the Postal Service achieved:

- An average 3.36 package scans per day compared to 3.21 and 2.47 for major competitors.

- An average Total Days to deliver for packages shipped on Monday of 1.79 days compared to 2.21 and 2.75 for the major competitors.

- An Average Total Days to deliver for packages shipped on Thursday of 2.08 days compared to 3.25 and 3.83 for the major competitors.

- An average shipping cost across all delivery zones of $7.34 whereas competitors were at $10.40 and $10.45, respectively.

The Postal Service is at the center of a rapidly evolving industry and is capitalizing on its strengths to grow its package delivery business. USPS shifted its focus this year from a cost-cutting position to a position focused on generating new revenue and exciting its customers. Innovative and creative initiatives are being implemented to adapt to the changing market, to drive value for our customers and build our capabilities for the future. The Postal Service is "Delivering a New Day" by adjusting some shipping prices to attract more business customers and streamlining its mail processing operations so it can invest in new package sorting equipment and other upgrades.

[2]*U.S. Retail eCommerce: 2014 Trends and Forecast; Yory Wurmser et al; eMarketer; April 2014; p. 2.*

Average Package Scans per Day
(Total Package Scans/Total Delivery Days)

Carrier	Zone 1	Zone 2	Zone 3	Zone 4	Zone 5	Zone 6	Zone 7	Zone 8	Average
UPS Ground	3.17	4.50	3.40	2.47	1.39	1.82	1.67	1.33	**2.47**
FedEx Home Delivery	4.50	4.75	4.31	3.25	2.82	2.23	2.15	1.78	**3.21**
USPS Priority Mail	4.67	3.94	3.11	3.22	3.44	3.11	2.89	2.46	**3.36**

Source: Stamps.com Who's Winning the Shipping War? Evaluating the USPS®, FedEx® and UPS® on Tracking Events, Delivery Times and Overall Costs February 2014 p. 8.

Average Total Days to Delivery by Shipping Zone
Normal Delivery (Shipped on Monday)

Carrier	Zone 1	Zone 2	Zone 3	Zone 4	Zone 5	Zone 6	Zone 7	Zone 8	Average
UPS Ground	1.00	1.00	1.33	2.00	3.00	3.67	4.00	6.00	**2.75**
FedEx Home Delivery	1.00	1.00	1.33	2.00	2.33	3.00	3.00	4.00	**2.21**
USPS Priority Mail	1.00	1.33	2.00	2.00	2.00	2.00	2.00	2.00	**1.79**

Source: Stamps.com Who's Winning the Shipping War? Evaluating the USPS®, FedEx® and UPS® on Tracking Events, Delivery Times and Overall Costs February 2014 p. 11.

Average Total Days to Delivery by Shipping Zone
Including Weekend Delivery (Shipped on Thursday)

Carrier	Zone 1	Zone 2	Zone 3	Zone 4	Zone 5	Zone 6	Zone 7	Zone 8	Average
UPS Ground	1.00	1.00	2.00	4.00	5.00	5.33	6.00	6.33	**3.83**
FedEx Home Delivery	1.00	1.00	1.00	2.67	3.00	5.00	6.33	6.00	**3.25**
USPS Priority Mail	1.00	1.67	2.00	2.00	2.00	2.00	2.00	4.00	**2.08**

Source: Stamps.com Who's Winning the Shipping War? Evaluating the USPS®, FedEx® and UPS® on Tracking Events, Delivery Times and Overall Costs February 2014 p. 13.

Shipping Costs by Zone
Two-Pound Package to Residence

Carrier	Zone 1	Zone 2	Zone 3	Zone 4	Zone 5	Zone 6	Zone 7	Zone 8	Avg Total
UPS Ground	$9.78	$9.78	$9.78	$10.27	$10.42	$10.81	$10.91	$11.19	**$10.45**
FedEx Home Delivery	$9.73	$9.73	$9.73	$10.22	$10.38	$10.76	$10.86	$11.14	**$10.40**
USPS Priority Mail	$5.32	$5.32	$5.44	$5.84	$7.55	$8.26	$8.98	$9.97	**$7.34**

Source: Stamps.com Who's Winning the Shipping War? Evaluating the USPS®, FedEx® and UPS® on Tracking Events, Delivery Times and Overall Costs February 2014 p. 17.

II. Delivering Operational Success

Enhancing Retail Access

Our retail channel strategy focuses on enhancing the customer experience and ensuring that the Postal Service remains a trusted American institution, while promoting our financial stability and cost efficiency.

The Postal Service network, consisting of approximately 32,000 Postal Service managed Post Offices, stations and branches, is the most extensive in the nation, with more locations than McDonald's and Starbucks combined. We also partner with retailers to provide another 64,000 locations for customers to access stamps and USPS services at times and locations convenient to them. We supply information and services online at *usps.com* and through applications on most mobile devices.

USPS continues to seek innovative retail alternatives to fulfill our customers' needs for service at a reasonable cost.

Postal Service in Rural Areas – In the past three years, we have modified retail hours in over 9,700 offices as part of the POStPlan. This plan keeps rural Post Offices open while addressing declining mail volumes and revenue. POStPlan impacted over 1,800 offices in FY2014, reducing hours at these offices to 2–6 hours a day. So far, 229 Post Offices have been converted to two hours per day. Another 1,022 have been converted to four hours per day, and 569 have been converted to six hours daily. At the same time, the Postal Service has introduced Village Post Offices (VPOs) which are arrangements with local businesses in rural America to provide USPS services where customers shop. A VPO provides a range of popular products and services including

PO Boxes, First-Class Mail Forever stamps, prepaid Priority Mail Flat Rate products, Priority Mail Flat Rate boxes for shipping and mail collection boxes. International mail pieces that have a computer-generated customs form with customs data electronically transmitted (through Click-N-Ship or an authorized PC postage vendor) can be deposited at a VPO. In FY2014 the Postal Service opened more than 400 VPOs in primarily rural communities.

Alternate Access – Many of our customers prefer the convenience of alternate access. The Postal Service leverages technology that includes self-service kiosks, online access and mobile payment devices to help facilitate additional access points. Outside the reach of our Post Offices we have also created a significant Approved Postal Provider network where customers can purchase stamps, mail a letter or ship a package. These retailers generate additional incremental revenue for the Postal Service by offering our products and services in places where we can't. Our alternate access network provides convenient mail services where customers live, work and shop which results in greater convenience, lower cost to serve and improves the customer experience. Each year we strive to create a positive retail experience that accommodates the evolving needs of our customers.

Retail Partnerships – In 2014, the Postal Service provided customers with access to stamps at more than 65,000 retail partner locations through the Stamps to Go (StG) program. Now more than 15 percent of all stamps are currently being sold through this program, which is one of our most cost-effective channels.

Various marketing efforts have been used to remind customers that U.S. postage is available through more than 645 partner companies. These efforts have been successful

in maintaining stamp sales while expanding our retail footprint. The Contract Postal Unit and the Approved Shipper programs also continue to grow revenue and expand reach through strategic partnerships. In particular, the Approved Shipper program increased its annual revenue by 33 percent this year and exceeded $90 million in revenue. The Stamps by Mail program continues to offer customers stamps delivered through the U.S. Mail without delivery or handling charges. This program remains popular with the elderly and disabled.

Improving Retail Services

gopost – Currently in pilot testing, *gopost* is the Postal Service's convenient way to receive and ship packages. The *gopost* units are automated, secure, self-service parcel lockers that are placed in convenient locations, where customers can pick up or ship packages 24 hours/day, 7 days/week at most locations. Customers who sign up for *gopost* receive user ID cards and PIN numbers which they can then use to access lockers and retrieve or send packages. Roll-out of *gopost* began in 2012, in the Washington, DC metro area, and there are currently 12 units in northern Virginia and Maryland and 5 locations in New York City. The *gopost* program is one key component of Postal Service efforts to develop and execute comprehensive parcel locker solutions to help reduce failed first attempt package delivery and improve the customer package pick up experience.

Post Office (PO) Box Service – New Post Office services and features are currently available at all of the 8,400 competitive Post Offices (a competitive Post Office is one where the Postal Service will provide some of the same services offered by its competitors at comparable prices):

- Baker's Dozen is 13 months of service for a 12-month payment on a new PO Box.

- No key deposit required for the first two keys to a new PO Box.

- Signature on File service for receipt of Priority Mail Express Mail, Insured mail over $200, Return Receipt (electronic) and Signature Confirmation.

Additional PO Box services and features are currently available at many of these 8,400 Post Offices:

- Street Addressing service — mail is addressed to a customer using either the PO Box or the street address of the postal location, along with the PO Box number.

- Real Mail Notification service — customers receive daily emails or text messages to inform them that they have mail in their PO Boxes.

- Expanded lobby access.

- Earlier times when mail will be available for pick up.

These new enhanced PO Box services — accompanied by extensive field outreach — have helped generate significant new revenue. In FY2014, the total revenue for PO Boxes including Caller Services was more than $1 billion, a new milestone for the services and a 2 percent increase in revenue over FY2013. Retail Services will continue to aggressively support growth of these services and improve the overall customer experience for PO Boxes.

Passports – The Postal Service's partnership with the Department of State Passport Services is critical in successfully providing customer service for the American public. Postal Service employees accept more than 72 percent of first-time applications. The Postal Service currently has over 5,200 facilities that provide fee-based passport acceptance of first-time applications for customers applying for a U.S. passport book or U.S. passport card. Over 4,800 facilities provide both passport acceptance and photo services (for a fee), which promote customer convenience and one-stop shopping. A near-term goal is to improve contribution from passports by increasing efficiency, growing the number of applications accepted and improving service to meet the Department of State requirements. In particular, the emphasis will be to improve the percentage of passport mailings processed through automation and consolidate passport facilities. The Postal Service has implemented Passport Centers in larger cities, which provide passport services in a separate area/location, focusing on providing customer service and convenience.

Premium Forwarding Service – Premium Forwarding Service (PFS) provides customers the option of temporarily forwarding their mail once a week by paying the application and weekly shipment fees. The customer's PFS mail is shipped via Priority Mail service with USPS Tracking. In January 2012, the Postal Service launched an online version of PFS, which offers customers the convenience of applying for and managing their account online at *usps.com*. PFS online continues to help grow revenue and create efficiencies by increasing the portion of transactions conducted online. Overall, PFS revenue grew 11 percent in FY2014, and PFS online revenue already represents over 25 percent of all PFS revenue.

Retail Revenue by Channel – The Postal Service strives to balance customer convenience and accessibility to our services with initiatives designed to control costs. We continue to see customers shift away from brick and mortar facilities to alternate forms of access as shown in the chart below.

Retail Revenue by Channel

Services	FY2014 retail revenue ($ millions)	FY2014 percent share of total retail revenue	FY2014 share difference from FY 2013	FY2013 retail revenue ($ millions)	FY2013 percent share of total retail revenue	FY2013 share difference from FY2012	FY2012 retail revenue ($ millions)	FY2012 percent share of total retail revenue
Retail window brick and mortar	$10,706	56.26	-2.72	$ 10,780	58.98	-2.19	$ 10,705	61.17
Expanded access	$8,325	43.74	+2.72	$ 7,497	41.02	+2.19	$ 6,796	38.83
Total retail revenue	$19,031	100.00		$ 18,277	100.00		$ 17,501	100.00

Retail Operations – Retail performance is measured by the Retail Customer Experience (RCE) program, as well as by surveys of residential and small and medium business customers. The RCE program hires private "mystery shoppers" who conduct mailing transactions at over 8,600 of our large retail outlets. The data from these transactions are analyzed and evaluated and feedback is provided to help improve the customer experience. Other customer experience ratings, including overall satisfaction with Post Office visits, are collected quarterly via national surveys of residential and small business customers. One key measure of a customer's retail experience is wait time in line. The service standard for this attribute is "Five Minutes or Less." For FY2014, the national wait time in line average was 2 minutes, 24 seconds versus the previous year of 2 minutes, 29 seconds, an improvement of 5 seconds.

The Overall Retail Experience score from the RCE mystery shops was 93.86 percent versus the previous year score of 92.87, an improvement of 0.99 percentage points.

	FY2014 Actual	FY2013 Actual	Variance
Average Wait (mm:ss)	2:24	2:29	-0:05 ↑
Overall Retail Experience*	93.86	92.87	+0.99 ↑

Source: Retail Data Mart, Retail Customer Experience Program.

mPOS

In FY2014, the Postal Service introduced mPOS (Mobile Point of Sale) devices in 69 locations nationwide, performing over 760,000 transactions and generating $3.4 million in revenue. This technology allows customer service representatives to process many simple transactions away from the Full-Service counter, a strategy known in the retail industry as "line busting." The solution consists of an Apple iPod Touch, an integrated barcode imager/credit card reader, a wireless receipt printer and a wireless label printer, allowing Post Offices to improve the customer experience and reduce our cost to serve.

Customers benefit from the convenience of being able to conduct transactions quickly and efficiently. Services such as Priority Mail Flat-Rate postage, acceptance of prepaid mail (PC Postage) and purchasing Forever stamp booklets and other retail products (such as ReadyPost or greeting cards) can be transacted with a major credit card in the lobby with the option of an email or paper receipt. mPOS technology was used to improve customer service in the high-growth Bakken oil fields of North Dakota and Montana, as well as to support "Tax Day" activities in major metropolitan cities. mPOS is being expanded to an additional 3,000 Post Offices in FY2015.

Mail Entry and Payment Technologies

Transition to the Intelligent Mail Barcode (IMb)

The POSTNET barcode was retired last year and mailers were required to use the Intelligent Mail barcode (IMb) on their business mail in order to claim automation postage rates. The conversion from POSTNET to IMb set the foundation for mailers to participate in the Full-Service Intelligent Mail option. Unique barcoding coupled with data reporting requirements of the Full-Service program provide the Postal Service with 100-percent visibility into the mailstream. Using the Full-Service IMb information, a suite of service performance diagnostic tools was developed for use by Field Managers to analyze and improve service performance. These tools leverage the information provided by Full-Service IMb. The suite of reports includes Mail Processing — Work in Process, Scorecard, Top 10 Impacts and Start-the-Clock Day of Week Analysis. Also, daily and weekly push reports allow us to focus on Containers at Risk and Daily Commercial Mail Scores.

The service performance diagnostic tools provided Field Managers with timely and meaningful information on potential service impacts allowing corrective action to be taken proactively eliminating potential service failures. The ability to see diagnostic data in near-real-time supported ongoing efforts to improve mail processing systemic issues and bottlenecks in processes that led to permanent resolutions. For example, Field Managers were able to measure and then reduce cycle time to consistently meet service targets. In addition, through container and individual mailpiece scans, Field Managers gained visibility into the elapsed time between each operational step in the process. As a result, incorrect mail flows and mishandlings were identified and corrected.

In FY2014, the volume of mail in measurement grew by 50 percent compared to FY2013. This was accomplished through enhanced business logic and improvement in scan compliance. Several new enhancements were added to the Service Performance Diagnostics tool which provided greater operational visibility to Field Managers. These enhancements provided new insight on service issues enabling the field to systematically identify the root cause of top impacts.

Diagnostic reports allowed mailers to uncover mail or documentation issues, which, when resolved, facilitated service improvements for their mail. Through the Full-Service option, mailers have access to (1) the lowest automation rates, (2) address correction for Full-Service mailpieces and (3) visibility into their own mailings. The IMb Planning Tool, available on the Rapid Information Bulletin Board System, shows mailers, by induction facility, how many days it takes to accept,

process and deliver their mail. It also explains service variance, allowing mailers to track on-time delivery performance and see the elapsed duration (in hours) between entry time and the first automated scan. Mailers use this IMb information to better manage their customer expectations about when the mail should be delivered and make informed marketing, financial and operational decisions.

Full-Service adoption increased in FY2014. Out of the 90 percent of IMb volume that is potentially eligible for participation in Full-Service, 80 percent is Full-Service as of September 2014 compared with 65 percent in October 2013. Among the major mail products, Standard Mail letters experienced the highest increase in adoption rate (17 percent) in FY2014, from 59 percent to 76 percent. Full-Service adoption continues to be the highest for Presorted First-Class Mail, increasing by 11 percent in FY2014, from 74 percent to 85 percent. The Full-Service Standard Mail flats increased by 7 percent, from 73 percent to 80 percent. Full-Service Periodicals increased by 11 percent, from 67 percent to 78 percent.

In FY2014, the Postal Service experienced one of the more challenging winters in recent history. However, through the use of Service Performance Diagnostics, the USPS continued to lean process and reduce variance on service. The FY2014 Commercial Mail Scores and the one-day service variance scores are as follows:

- First-Class Mail overnight ended the fiscal year at 97 percent, with mail delivered at 99.5 percent or within 1 day of the service standard;

- First-Class Mail 2-Day ended the fiscal year at 96.4 percent, with mail delivered at 99.2 percent or within 1 day of the service standard;

- First-Class Mail 3-5 Day ended the fiscal year at 92.2 percent, with mail delivered at 97.8 percent or within 1 day of the service standard;

- Standard Mail Destination Entry ended the fiscal year at 89.9 percent, with mail delivered at 96.7 percent or within 1 day of the service standard;

- Standard Mail End-to-End ended the fiscal year at 63.5 percent, with mail delivered at 77.8 percent or within 1 day of the service standard; and

- Periodicals ended the fiscal year at 80.9 percent, with mail delivered at 91.2 percent or within 1 day of the service standard.

Mail Preparation, Addressing and Commercial Acceptance

Our continued adoption of Intelligent Mail and Full-Service technologies has enabled a significant paradigm shift in the way we accept and verify commercial business mailings. We have reduced reliance on manual processes and moved into a digitized process flow.

These capabilities will empower customers with a suite of tools that will enable payment flexibility, preparation simplicity, ease of entry, multiple access points for account management and deeper visibility into their mailing status.

Additional value will occur through expanded Full-Service penetration by small business mailers. The increased use of Intelligent Mail barcodes with Full-Service allows the USPS to position these mailers for Seamless Acceptance.

Intelligent Mail for Small Business (IMsb) Tool

In 2014 we continued to enhance and promote the IMsb tool. This tool offers a simple and cost-effective online solution for small mailers to prepare Full-Service, seamless-ready mailings. In addition to providing Full-Service access to small businesses, the tool provides simplified mail preparation and entry options, including electronic creation and submission of postage statements, generation of unique IMbs and the ability to import address lists.

Full-Service Simplification and Promotion

Aspects of the Full-Service program were reviewed and actions were taken to simplify mailers' entry into Full-Service and to encourage growth across mailers of all sizes. Changes included simplification of Full-Service mail preparation requirements, a software vendor certification program and improved Full-Service onboarding processes.

Promotion of Full-Service continued in 2014 with a focus on commercial mailers who prepare Full-Service eligible mailings but have not transitioned to Full-Service. The promotion consisted of educational materials, webinars and direct outreach to identified mailers.

eInduction

A primary objective of commercial mail entry is to eliminate the reliance on hard-copy forms and processes. The electronic induction process — eInduction — leverages existing electronic documentation, Intelligent Mail barcodes and hand-held scanner technologies to verify payment for the mail at a container level. This ensures the containers are inducted into the correct destination facility. Increased use of electronic data through eInduction will reduce dependence on paper-driven processes, directly reducing the amount of manual validations conducted on shipments at destination plants. The eInduction program was deployed on October 1, 2013 and is used by 32 percent of mailer-shipped containers. A pilot of a scan-based eInduction process at sites without a wireless scanner was started on September 13, 2014.

Seamless Acceptance (Letters and Flats)

Seamless Acceptance allows commercial mailings of letter and flat-size mailpieces to enter the mailstream with fewer manual acceptance and verification activities.

The expanded use of technology through Seamless Acceptance increases opportunities to use automated processes to reduce errors, improve efficiencies and improve revenue assurance capabilities.

A combination of active and passive scans from the Postal Service's visibility systems and mail processing equipment are used to support an automated process to reconcile the containers, handling units and mailpieces scanned by the Postal Service against a mailer's electronic documentation.

In addition to the processing equipment scans, mailing data is collected through a sampling process. Enhancements to the Full-Service–Intelligent Mail Device (FS-IMD) allows for the data to be collected and matched to data collected through eDoc. When used in conjunction with mail processing equipment scans, also matched to eDoc data, a "big picture" view of the mailing emerges.

FY2014 saw continuous improvement in reporting capabilities providing analytical reports for both internal and external customers. Scanning results and sampling are compared to mailer electronic documentation, allowing both the mailer and the Postal Service to monitor mailer quality using information about errors and quality trends over time.

Seamless Acceptance was deployed in March 2014 and is being used at 96 mailer facilities representing 17 percent of commercial letter and flat volume.

Electronic Verification System (eVS)

The eVS system allows package shippers to seamlessly enter their mailings into the Postal Service system. The system incorporates manually sampled packages and scans of packages from mail processing equipment that are used to validate postage payment against the mailer's manifest information.

The eVS program continues to focus on enhancements to the system. These enhancements will position the eVS system for new revenue growth, and will support the business needs of government agencies and package consolidators who have thus far been unwilling to transfer their shipping services to eVS.

Streamlining Customer Payment and Account Management Processes

The Payment and Account Management initiatives improved our ability to manage customer incentives, contract pricing and loyalty tracking, while helping us gain deeper insights into how our customers use our products and their revenue contribution.

New technical specifications, namely "Intelligent Mail Indicia Performance Criteria," were published for PC Postage and Meter Vendors that will provide the Postal Service with improved product usage information.

Payment and account management improvements reduce the current burden experienced by mailers in opening permits and managing accounts. "Mail Anywhere" functionality was made available to all mailers in the spring of 2014. "Mail Anywhere" allows the use of a single permit at mailing locations across the country and greatly simplifies the account management process for commercial mailers.

Internal Controls

Mail acceptance processes were reviewed and updated for field Business Mail Entry units to ensure Sarbanes-Oxley Act of 2002 (SOX) compliance. This was achieved through extensive communication and training efforts encompassing more than 25,000 employees.

Network and Transportation Operations

Key Service Metrics

For the FY2014 measures of Single-Piece First-Class Mail, the Postal Service fell short of the target performance for Overnight, Two-Day and Three-to-Five Day delivery. For Presort First-Class Mail, the Postal Service met the target performance for Overnight, but fell short of the target for Two-Day and Three-to-Five Day delivery. Although targets were not reached for all categories of Single-Piece First-Class Mail delivery, overall performance scores have remained high and relatively stable. Weather variability also affects year-to-year comparisons, specifically in the first and second quarter of the fiscal year, during which the Postal Service was impacted by historically severe winter weather.

Network Realignment Stabilization

The Postal Service completed the initial phase of network changes during FY2013, including 143 consolidations. These changes to the processing network were accomplished while successfully maintaining a high level of service to our customers. During FY2014, the Postal Service focused on ensuring the efficient operation of the remaining facilities through an initiative such as Lean Mail Processing, rather than pursuing additional consolidation activity. A second phase of network changes, impacting 82 facilities, will begin in January 2015.

Lean Mail Processing

Lean Mail Processing (LMP) is being implemented in mail processing facilities nationwide. LMP is focused on improving operational efficiency and reducing cycle times between plant processes with the use of Lean Six Sigma tools and methodology. The foundation of LMP is to reduce waste and improve operational efficiency by creating an organized workspace with visual management signs to standardize the work unit. LMP is also aimed at standardizing mail flow to ensure first-in, first-out processing. Additional benefits include reducing mail transport equipment inventories to align with mail processing needs.

New Package Processing Technology – To facilitate the growing package business, the Postal Service is exploring new package processing solutions. This includes new equipment, such as Small Parcel Sortation Systems, as well as new technologies that will work with our existing equipment, such as new scanners, software and sortation programs development. This new equipment and technology will position the Postal Service to accept, process and deliver packages more efficiently in the coming years.

Total Factor Productivity

Total Factor Productivity (TFP) is an index that measures how efficiently the Postal Service uses resources (inputs) to handle all aspects of its workload. An increase in the TFP index indicates that the ratio of work being completed is increasing compared to the resources used and that the Postal Service is operating more efficiently. Workload consists of three primary components: delivery points, mail volume weighted by product type and miscellaneous output (e.g., passports). Resource usage is based on the constant dollar amounts (i.e., the costs adjusted for changes in prices) of the labor, capital and materials used by the Postal Service.

The chart below starts with the cumulative TFP improvement from 1972 to 2007, and then reflects the cumulative score each year since then. FY2014 marks the fifth consecutive year of positive TFP growth.

Total Factor Productivity
(Cumulative improvements compared to 1972 baseline)
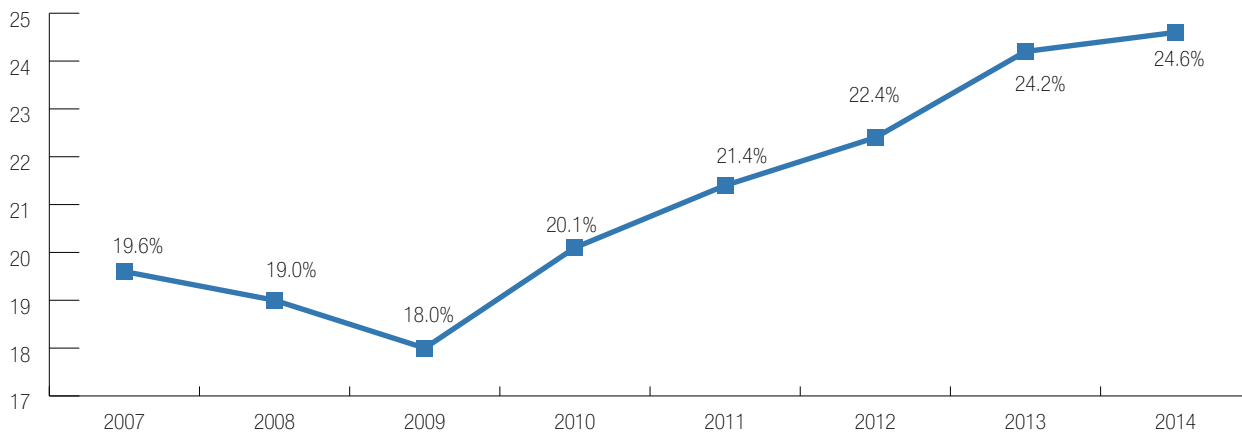
Note: Prior year results are updated based on most current data.

Air Cargo Optimization – During FY2014, significant savings were realized in regard to the Air Cargo Network. The new Air Cargo Network with FedEx was implemented on October 1, 2013. This replaced the previous agreement with FedEx that had been in place since 2001.

Ground Transportation Optimization – Highway transportation expenses for FY2014 were $3.5 billion. This is an increase of 3.5 percent from FY2013. The primary driver behind the increase in highway transportation expense resulted from the movement of 281 originating-destinating pairs from air transportation to ground transportation. Secondary to this, the USPS provided an expanded ground reach through Peak Season FY2014. This increase in highway transportation costs has been off set by the closure of two ground network surface transfer centers in Clinton, TN, and Binghamton, NY, as well as additional mileage cutting measures to remove redundant transportation from the network. Postal Vehicle Service work hour usage for FY2014 was over 25 million. This is an increase over FY2013 and is predominantly a result of an increase in Vehicle Maintenance operations of 751,000 work hours.

International Operations Optimization – USPS continues to focus on reducing cost and improving customer service for International and Military Mail. In cooperation with the U.S. Department of Defense and U.S. Department of State, outbound military and diplomatic mail operations were consolidated into the Chicago International Service Center, reducing domestic transportation and handling costs and improving end-to-end service. USPS has also coordinated with several foreign postal administrations to sort U.S. inbound mail by ZIP Code range to more efficiently route volumes

to airports geographically closer to the customer. This has resulted in a reduction in USPS handling and transportation costs while simultaneously reducing end-to-end transit times.

Facilities Management

The Postal Service remains focused on working to deliver, serve, adapt and improve. Our real estate portfolio of approximately 32,000 building facilities covering 275 million interior square feet remains one of our greatest tangible assets. It is vital that we manage and adapt our building portfolio to align with customer needs for service at a manageable cost. The purpose of the USPS Facilities team is to provide appropriate facilities for Postal Service needs, to ensure proper stewardship and management of the real estate inventory and related resources, such as portfolio energy management and real property investment, and to continually balance the real estate portfolio.

Facilities performs strategic planning via 'node studies' analyzing the processing, delivery and retail use of existing facilities and the current and future local service needs. This identifies communities that can benefit from additional or modified capacity and locations where capacity exceeds the needs of the Postal Service, thus representing potential opportunities for savings and revenue generation. The 235 node studies approved in FY2014 represent $408 million of net present value in potential savings.

We executed over 5,200 leases in FY2014, ensuring continued occupancy for Postal Service operations at leased properties. Despite the increases in lease rates driven by the recovering economy, the lease rates for leases over $50,000 were negotiated 8.2 percent below market value.

Sales and outlease (rental) of excess real property assets generated over $200 million in gross receipts for the fourth consecutive year. This trend is slowing as economic conditions shift and opportunities decrease.

In FY2014, the Facilities team implemented portfolio modification projects ranging from emergency replacements to planned infrastructure changes supporting organizational and network initiatives. In FY2014, the USPS completed 70 new construction projects and dozens of other major renovations. These projects enabled the Postal Service to provide enhanced services, to maintain or restore operations after catastrophic events and to combine multiple facilities into fewer or smaller locations when appropriate. These moves allow us to take advantage of less costly space; sell off large, underutilized properties; or move to smaller, more efficient space.

Meeting the continual need for upkeep, we completed over 53,000 repair, alteration and replacement projects along with 1,844 upgrades for the Premier Post Office program in FY2014. We also finished 3,432 upgrades to maintain customer access in locations impacted by POStPlan. These measures ensure safety, security, serviceability and accessibility of Postal Service buildings as we maintain and right-size our network to provide a positive customer experience.

The current industry trend of consumer migration away from brick and mortar shopping to eCommerce, and its resultant growth in the package business, is impacting our facilities portfolio management plan as we continually improve and adapt that plan to address these marketplace developments.

Real Estate Inventory (Fiscal Years Ended Sept 30)

Real estate inventory	FY2014	FY2013	FY2012
Owned properties	8,583	8,598	8,606
Owned interior square feet	195,617,292	196,956,774	197,324,325
Leased properties	23,649	23,814	23,998
Leased interior square feet	77,838,427	79,045,620	81,401,414
GSA/other government properties	296	297	300
GSA/other government interior square feet	2,001,667	2,005,330	2,035,494

Real Estate Inventory Actions

Inventory actions	FY2014	FY2013	FY2012
Lease actions (alternate quarters, new leases and renewals)	5,282	3,487	2,507
Property disposals*	30	44	49
New construction (AQ, NCO, NCL and expansion)**	70	29	22
Repair and alteration projects (expense)	46,961	45,040	42,489
Repair and alteration expense totals	$159,000,000	$156,000,000	$176,000,000
Repair and alteration projects (capital)	6,431	4,178	3,268
Repair and alteration capital totals	$226,000,000	$195,000,000	$207,000,000

*Total partial and complete property sales (does not include non-property sales such as right-of-ways/easements, sale of rights, defaults, installment payments, etc.).
**Includes the build-out of pre-existing non-Postal spaces (Alternate Quarters [AQ]), the expansion of Postal-owned space (Expansion) and the new construction of leased (NCL) or owned (NCO) space.

Postal Vehicle Inventory

Vehicle type	FY2014	FY2013	FY2012
Delivery and collection (1/2–2½ tons)	189,750	190,104	190,897
Mail transport (tractors and trailers)	5,751	5,850	5,985
Mail transport (3–9 tons)	2,133	2,139	2,145
Administrative and other	6,249	6,449	6,451
Service (maintenance)	4,599	4,613	4,604
Inspection Service and law enforcement	2,782	2,529	2,448
Total	211,264	211,684	212,530

Delivery Points, by Type of Delivery (see page 56)

Delivery type	FY2014	FY2013	FY2012
City	89,243,359	88,852,114	88,566,570
Rural	42,305,090	41,636,361	40,943,044
Post Office box	19,493,135	19,621,031	19,884,472
Highway contract route	2,850,392	2,810,927	2,752,465
Total	153,891,976	152,920,433	152,146,551

Number of Routes, by Type of Delivery (see page 56)

Route	FY2014	FY2013	FY2012
City	141,271	142,073	143,436
Rural	73,166	73,089	73,578
Highway contract route	9,928	9,990	9,985
Total	224,365	225,152	226,999

Delivery Operations

Although the delivery infrastructure has been revamped and made more efficient through route reductions since 2008, it continues to be fuel and labor intensive. Mail volume continues to decline while the number of addresses we deliver to steadily increases. Our ongoing efforts in combining delivery unit locations, as part of the Delivery Unit Optimization (DUO) project, requires re-evaluating routes as workloads change and encouraging Postal Service customers to adapt to the most efficient mode of delivery (Mode Conversion). Our efforts have contributed to relieving some of the cost pressures on the expansive USPS delivery infrastructure. Using the latest in software technology, such as Dynamic Routing and Mobile Delivery Device (MDD) to provide near real-time tracking and the flexibility to delivering packages 24/7, has made the Postal Service more competitive within the package delivery industry.

Route Evaluations and Adjustments

Field management continues to inspect, evaluate and adjust delivery routes as necessary to reduce costs while improving service. During FY2014, the number of total routes was reduced by 787 from 225,152 to 224,365. This was accomplished while absorbing 944,183 additional delivery points that would have required adding 601 city routes and 1,135 rural routes. As part of DUO, we also relocated delivery operations from 139 smaller offices to centralized facilities to improve delivery efficiency.

Mode Conversions

Delivery efficiency is improved by increasing the number of deliveries per carrier stop. Converting deliveries to a more centralized mode reduces transportation costs, increases efficiency and lowers operational work hours. As a result of our communication and outreach efforts with our customers during FY2014, the USPS voluntarily converted a total of 225,009 deliveries to a more efficient delivery mode — 165,358 residential and 59,641 business deliveries. Additionally, deployment of modified Centralized Box Units with parcel lockers enhanced customer acceptance of centralization.

Dynamic Routing

Dynamic Routing uses a combination of specialized commercial and internal software that can create multiple routes within a large geographic region or HUBs crisscrossing ZIP Code boundaries. The number of routes created, the number of deliveries per route and travel patterns vary each day depending upon the quantity of parcels and delivery addresses. USPS began testing Sunday package delivery using Dynamic Routing at the close of FY2014. At that time, USPS was generating approximately 5,000 dynamic routes to deliver nearly half a million packages each Sunday in all seven areas, within 43 districts and in nearly 4,000 ZIP Codes. USPS will continue to expand the use of dynamic route generation on Sunday and explore additional uses during the peak holiday season and on weekdays throughout the year.

Mobile Delivery Devices

The MDD is the latest generation handheld device used by delivery carriers to record near real-time delivery tracking of packages. A purchase contract for 75,000 MDDs was awarded this past March and deployment of 5,300 devices was made for the Rural Route Study in June. Since September, approximately 5,500 devices have been deployed per week under the purchase contract.

The plan for FY2015 is to continue with the phased rollout of MDDs and replace what remains of the aging Intelligent Mail Device (IMD) and related clamshell cell phones currently in use. The plan includes the purchase of 188,000 additional MDDs with deployment to all delivery units starting in February 2015 with completion by September 2015.

Delivery Scanning Systems

More than 12,500 new Delivery Scanning Systems (DSS) were deployed this year to improve package scanning. DSS allows offices and other delivery units to efficiently capture arrival at unit scans on packages, and it tells the operator which route the package belongs on. This equipment improves our ability to provide efficient and timely delivery for packages that have just arrived in unit from large eRetailers.

Passive Adaptive Scanning System (PASS)

PASS is being deployed to larger postal facilities and serves a similar purpose as DSS. When packages arrive at facilities with PASS, multiple employees can use the unit to scan the packages; customers who are tracking the package at *usps.com* see the message "Arrival at Unit." Once the package leaves the facility, customers see "Out for Delivery." More than 2,700 PASS units were deployed this year expanding our network to over 3,800 systems.

Tracking and Visibility

The Postal Service continues to use technology to enhance visibility for our mail and package products in order to provide customers with the end-to-end tracking they expect. Additionally, enhanced product visibility allows the Postal Service to build and leverage operational intelligence to increase efficiencies and improve performance.

Container, tray and piece visibility improvements continued in FY2014. We expanded our focus to include bundles. A Bundle Visibility pilot

is underway to provision out-for-delivery events for Standard and Periodical Flats. The pilot leverages nesting information provided by mailers and scanning to determine which mailpieces are out for delivery. National rollout of the bundle visibility program is targeted for FY2015.

We deployed the Volume Arrival Profile (VAP) tool in FY2014 for employees to gain insight on mail volume profiles, transportation, labor and scan equipment utilization. VAP provides a daily view of all carriers and intra-facility movement of the mail, showing arrival and departure times. This helps resolve issues related to mail movement and impacts of not meeting required timeframes. Additionally, VAP allows for better management of mail pick up based upon customer volumes. VAP allows management to identify opportunities to get carriers back to the delivery unit earlier in the day, which gets mail inducted into processing earlier, ultimately increasing efficiencies throughout the network.

To fully leverage current and future product visibility, the Informed Visibility (IV) enterprise system will be designed to provide real-time actionable information. This system will be a single source of all mail and mail aggregate information. IV will provide real-time event-driven service performance measurement and diagnostics, mail inventory and predictive workloads and end-to-end tracking and reporting for mail. Development is planned to begin in FY2015.

Product Visibility

The Postal Service remains focused on using technology to provide world-class visibility for our mail and package products. By improving our scanning performance scores, we have been able to provide better information for our customers about the location of their mail and packages. Customers

will know in near-real time where their mail or packages are in the Postal Service network and when they can expect delivery.

We continue to emphasize the importance of scanning in messages to field offices and through recognition of the top performing Postal Service areas and districts.

Enhanced product visibility and scanning have allowed the Postal Service to provide customers with the end-to-end tracking information they expect. Customers benefit because USPS Tracking is included automatically at no additional cost on Standard Post and Priority Mail with full USPS retail acceptance.

Delivering a New Holiday

The Postal Service provided stellar performance and was lauded as the "star of the holiday season" by a Bloomberg Businessweek article[3]. It was reported that "meticulous planning" allowed the Postal Service to plow ahead with "no widespread complaints about tardy deliveries."

The report said 2013 holiday package volume jumped 19 percent compared to 2012. The online publication also noted USPS was "swamped with parcels" but detected the uptick in volume in early December and "made adjustments to avoid delays." One of its adjustments was delivering packages on the three Sundays before Christmas in its busiest markets and "USPS also delivered 75,000 packages on Christmas Day," according to the report.

At the same time, the Postal Service continued regular deliveries of other mail including Sunday package deliveries for online retailers.

"The Postal Service may not be celebrated for speed, but when it comes to getting stuff to people on time during the holidays, the 238-year-old agency is tough to beat."

III. Consumer and Industry Affairs

Providing a positive customer experience is one of the core strategies that drive overall customer satisfaction and it remains the primary focus of our improvement efforts. We continue to promote the importance of customer service and provide customer insights through monthly videos, weekly messaging, tools and resources to inform and engage employees. We have standardized the complaint handling and resolution process by providing guidelines that give direction from initial contact through completion, with a quality resolution. Additionally, we continue to provide detailed diagnostic reports that identify Post Offices with opportunities to improve the customer experience and verbatim customer comments to provide specific feedback. We provide regular web-based information sessions to ensure our field managers know how to use these tools. Our intent is to improve processes and enhance systems in ways that support timely and thorough resolution of customer concerns and inquiries. We know that creating an organizationwide culture of responsiveness is critical in retaining our current customer base and acquiring new customers, both essential in driving revenue growth.

National Consumer Protection Week

National Consumer Protection Week (NCPW) was held March 2–8, 2014. NCPW highlights fraud and helps citizens improve their ability to combat crime. This year's campaign, "In a Sweepstakes, If You Pay to Play — You Lose," focused on educating consumers and caregivers about foreign lottery and sweepstakes schemes. During NCPW, USPS and its partners provided free resources to help people protect their money and privacy, as well as information on how to avoid frauds and scams.

[3]"An Unlikely Star of the Holiday-Shipping Season: The U.S. Postal Service"; Bloomberg Businessweek; December 30, 2013; http://www.businessweek.com/articles/2013-12-30/an-unlikely-star-of-the-holiday-shipping-season-the-u-dot-s-dot-postal-service.

Throughout the week, USPS displayed educational materials in retail lobbies to promote scam awareness. The goal of educating customers was to help them avoid being scammed, as well as to provide information on what to do if they become victims of a scam.

National Postal Forum

From March 16–19, 2014, 2,800 large and small business customers attended the annual National Postal Forum (NPF) held in National Harbor, MD, despite a severe snowstorm that impacted the entire Washington, DC Metro area. Since 1968, the National Postal Forum has been the preeminent mailing industry meeting bringing together the Postal Service and its major customers — including corporations, state and local governments and nonprofit groups. The four days of business sessions featured more than 130 educational opportunities and explored topics ranging from strategy to operations and marketing to technology. Senior managers of the Postal Service also met with industry customers to resolve mailers' issues, and the USPS sales force used the NPF to identify and close high-value revenue opportunities. Organized by a separate, not-for-profit educational corporation, this once-a-year event presents a unique opportunity for existing and prospective customers to meet and interact with USPS management and hear about existing and upcoming USPS products and services.

Mailing Industry Dialog

The Postmaster General's Mailers' Technical Advisory Committee (MTAC) is a venue for the United States Postal Service to share technical information with mailers and to receive advice and recommendations from mailers on matters concerning mail-related products and services in order to enhance customer value and expand

the use of these products for mutual benefit.

Postal Customer Councils

Postal Customer Councils (PCCs) are made up of Postal Service leaders and business mailers who work together to promote the value of mail, address mailing concerns and exchange ideas to maximize the benefits of the U.S. Postal Service products, programs, services and procedures used by all businesses that touch the mail. Through regular meetings, educational programs, mailer clinics and seminars, PCC members learn about the latest Postal Service products and services that will help them grow their businesses. There are more than 155 active PCCs nationwide. National PCC Week is an annual event that brings together thousands of mailers, industry partners and customers nationwide to recognize their contributions to the Postal Service, outline future plans and goals and hear the annual state of the business address by the Postmaster General.

Business Service Network

The Business Service Network (BSN) is a nationwide network dedicated to providing service support to the U.S. Postal Service's largest customers for service issues, information and request needs. The BSN is strategically positioned to have an impact on customer satisfaction and revenue growth and retention. The BSN provides customer service for the Postal Service's 22,000 largest customers. BSN customers have a combination of complex issues across multiple areas and generate extremely high Postal Service revenue.

Customer Care Centers

The Postal Service launched its fourth Customer Care Center in FY2014. All are operational with 100 percent of the contact volume now

transitioned from an outsourced supplier to our internally operated centers. The four Customer Care Centers handle 52.3 million self-service and assisted customer calls annually, or approximately 209,000 daily[4]. USPS Customer Care Centers provide information and resolutions that simplify the mailing experience of our customers.

IV. Delivering New Products and Services

The Postal Service is moving full speed ahead to create new mailing and shipping products that offer Americans compelling and exciting new ways to connect with each other. We are embracing new technologies that enhance the value of mail and merge physical with digital. We are responding quickly to the marketplace by offering shipping solutions that meet the demands of the "need it now" world of eCommerce and mobile connectivity. We are innovating, thinking "outside the mailbox" and finding fresh new ways to leverage our unique Postal Service assets. At the same time, our goal is to ignite innovation throughout the mailing and shipping industry.

We are focused on our first- and last-mile capabilities, our physical network and digital enhancements.

Shipping

As shipping and package volumes and revenues continue their impressive growth, the Postal Service took steps to simplify products, offer people more control over where, when and how they receive packages and provide superior labeling, manifesting and payment solutions.

Returns

The Postal Service launched an effort to streamline and enhance our suite of returns products, making them easier for merchants and consumers

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[4]*The calculation of the number of calls per day is based upon 260 annual Monday-thru-Friday days, less 10 holidays = 52.3 million annual calls ÷ 250 days = 209,000.*

to use. Product returns are an integral part of eCommerce shipping. Consumers expect businesses to provide a quick, easy and stress-free way to return unwanted merchandise purchased online. The Postal Service offers affordability and superior accessibility through our retail, delivery and pick up networks.

As first steps, we built a more prominent presence for returns on *usps.com*, highlighting features and benefits and providing additional resources for customers. An online permit creation process was introduced for business customers who ship with Merchandise Return Service and Parcel Return Service. A "pay on first scan" was introduced for merchants who start shipping USPS Returns Services, which offer an automated and streamlined postage calculation and assessment process.

In addition, we also introduced Print and Deliver Return Label Service. At the request of a merchant, the Postal Service can create and deliver, make available for pick up at a Post Office or have a prepaid return shipping label for the customer at a USPS self-service kiosk and pick up the return package at the same time. A scan triggers payment for the postage.

The Postal Service will continue to make the returns experience simpler and more convenient for both merchants and consumers, including exploring new ways to use labels that make the transition from a package received to a package returned even easier.

Pick up Services

We not only deliver to every address — we also will pick up packages from those same addresses. To improve convenience, more USPS shipping products now can be picked up from customers' homes and offices through our free Package Pick up service. Customers go online to *usps.com* to request that their

carriers pick up their packages during regular delivery the next business day. Previously, free Package Pick up was only available for expedited products, returns and international items. Now, free Package Pick up also includes First-Class Package Service, First-Class Mail parcels, First-Class Package Returns and ground products.

We also made changes to our Pick up on Demand service, which provides pick up within a two-hour window for a fee. Requests for this option can now be scheduled up to a year in advance and the service can be requested on *usps.com*.

Premium Forwarding Service Commercial

Premium Forwarding Service (PFS) Commercial lets businesses consolidate mail received from multiple PO Boxes and street addresses into a package for delivery to a single address. The Postal Service automated the request and payment process for PFS Commercial shipments by Priority Mail Express. Information is entered online through the Business Customer Gateway, the portal used by business customers to access Postal Service payment and other applications. In addition, businesses that use PFS Commercial will pay an annual application fee instead of being charged a fee each time they request the service.

Mail Forwarding Made Easier Online at *usps.com*

The Postal Service processes almost 40 million change-of-address requests each year and strives to make the process as simple as possible for customers. Customers do not have to go to the Post Office to file a Change of Address. They can use the Internet Change of Address (ICOA) service on *usps. com*. Customers can also modify their original change of address order

without going to a Post Office or filling out additional forms. By going to *managemymove.usps.com* and entering their Change of Address confirmation code and their new ZIP Code, customers can make changes such as updating their move type, changing mail forwarding dates or canceling orders altogether.

Customers also can use a credit or debit card with a billing address that is different from either the old or new addresses. This feature is particularly useful for customers whose credit or debit card is associated with a PO Box or work billing address, or for those filling out a request for an elderly or deceased relative. There is also new and improved real-time address verification. Addresses entered as the "move from" or "move to" addresses are immediately compared to or matched against the USPS database of deliverable addresses. If there is no match, the customer can be alerted immediately to correct the error before submitting the ICOA order. Customers will receive emails confirming their ICOA submission and alerting them when mail forwarding is about to end. ICOA users also will have access to move-related coupons and special offers.

Priority Mail Pricing

The Postal Service introduced a new pricing strategy for Priority Mail, including a reduction in average prices for businesses and other customers who use Commercial Plus and Commercial Base online shipping services. The price change included a modest increase in Priority Mail prices at Post Offices and other Postal Service retail outlets. The changes offer more competitive pricing and build on Priority Mail's popularity with customers. Unlike others in the shipping industry, the Postal Service did not implement any new dimensional weight charges.

When customers ship with Priority Mail, they get free insurance,

expected delivery day and Flat Rate and Regional Rate packaging options. Priority Mail is one of the Postal Service's most popular shipping products, helping to boost USPS package volumes and meet customers' needs for convenience at competitive prices.

Packaging

The Postal Service continued to build on the strength of its Priority Mail product line in 2014. We looked creatively at ways to "put our best box forward" and highlight our expedited shipping options, as well as enable businesses to promote their brands in tandem with USPS. For the holidays, the Postal Service introduced limited-edition Priority Mail Flat Rate boxes that featured a red ribbon and bow printed on them. For this effort, 6.5 million boxes were distributed through USPS retail offices. In addition to adding a touch of holiday cheer to packages, customers who used the boxes got improved tracking, day-specific delivery information and up to $50 of free insurance.

In Spring 2014, the Postal Service teamed with Sony Pictures to promote Priority Mail and the nationwide May 2, 2014, release of the motion picture, "The Amazing Spider-Man 2." There were 17.5 million Spider-Man-themed Flat Rate boxes distributed to USPS retail locations during the promotion. Other elements of the campaign included a television commercial, retail posters and displays and social media. The campaign also highlighted courageous acts by Postal Service employees.

The Postal Service continued to offer customized and specialized packaging to customers who met certain volume and revenue requirements. In FY2014, approximately 40 new customers were brought into the customized program. These customers must generate a minimum of $250,000 in postage each year. Customers work with USPS to incorporate their

logo, or other customized printing, on USPS-supplied packaging.

Specialized packaging consists of a predetermined set of USPS-supplied expedited packaging items that have proven popular with customers. This program for new customers with $50,000 in annual revenue grew by more than 40 percent over FY2013.

Parcel Select

With our extensive delivery network, the Postal Service helps businesses get goods to people's doorsteps economically — any day of the week. Even our competitors use us to deliver the last mile for their customers. Our Parcel Select Service offers an economical ground shipping solution that is a particularly good fit for high-volume shippers who want to meet their customers' demands for free shipping for their purchases and timely delivery. Parcel Select shipments are transported to designated Postal Service facilities closer to delivery addresses, helping save on costs. In November 2013, the Postal Service began delivering Parcel Select packages on Sundays to customers of one of the nation's largest eCommerce companies as part of a negotiated service agreement. Development continued on expanded opportunities for Parcel Select to meet the needs of online shoppers and shippers.

Customized Delivery

The Postal Service began conducting operational testing for early morning grocery delivery. Grocery delivery services are expanding across the nation, with businesses ranging from the nation's largest retailers to niche operators to car services entering the marketplace. The Postal Service has an opportunity to provide retailers with a nationwide solution that offers a trained workforce and the trust and reliability of our brand.

Following preliminary operational tests, the Postal Service announced

it wanted to pursue a two-year market test of Customized Delivery, a package delivery service designed for retailers to deliver groceries and other prepackaged goods. The deliveries would occur primarily during a 3 a.m. to 7 a.m. delivery window. The Postal Service also might test other customized delivery windows as part of this market test, planned to start in early FY2015. In addition to examining the operational feasibility of customized delivery windows, the market test would assist the Postal Service in determining the optimal pricing structure for this type of service.

MetroPost

The Postal Service expanded its market test of MetroPost same-day package delivery service to parts of the New York City metropolitan area. MetroPost was introduced in San Francisco in 2012 to meet the needs of eCommerce shoppers who want items delivered on the same day they bought them. Businesses pay a fee to have packages picked up in the afternoon and delivered to customers by that evening. Types of businesses that have used MetroPost include large retailers, florists and specialty food stores.

Mailing

The Postal Service continues to drive innovations that give consumers more control over the mail they receive, make direct mail simple to send, enable multi-media touch points and reinforce the resiliency of mail as a trusted, effective communications channel.

Election and Political Mail

Mail provides significant support for the political process. Lawmakers and candidates use direct mail to reach out to constituents and potential voters. Several states have turned to vote by mail for general elections. In preparation for November 2014 midterm elections, the Postal Service

updated its essential Election Mail and Political Campaign Mail resources. We also took steps to ensure proper identification and cancellation dates for these important mailpieces.

In October 2013, the Postal Service revised ballot-mailing postage standards in the *Mailing Standards of the Unites States Postal Service*, Domestic Mail Manual. The rule requires that election officials prominently mark the postage required on all returned ballot materials. In January 2014, an election-mail checkbox was added to postage statements to provide USPS with visibility of all official Election Mail entered into the mail stream.

In response to election officials and municipal mailer requests, the Postal Service began applying a cancellation mark to all letter pieces processed on USPS letter automation-compatible postage cancellation systems. This change, among other uses, will allow identification by mailing date of ballot materials, voter registration cards, absentee applications and polling place notifications.

Promotions

Each year, the Postal Service develops a calendar (see page 62) of mailing promotions intended to increase the value of transactional and direct mail and offer customers incentives to adopt technologies that enhance how consumers interact with mail. These incentives include upfront postage discounts or credits. During FY2014, these efforts resulted in significant mail volumes during the promotional periods.

The first promotion on the calendar encouraged mailers to "push the envelope" and expand their mobile technology use, beyond basic QR codes, to include creative elements such as color and/or graphics in their mobile technology. Mailers who participated sent out more than 2.5

billion pieces. This promotion was followed by the Premium Advertising Promotion, which encouraged use of First-Class Mail as a marketing vehicle, and the Mail and Digital Personalization Promotion, which encouraged mailers to use personalization through URLs, Web pages or mobile experiences with both messaging and content linked to the mailpiece. Nearly 200 million pieces were attributed to these promotions.

The Earned Value Promotion was developed to encourage mailers to continue providing Business Reply Mail and Courtesy Reply Mail enclosures in their outbound First-Class mailings. Mailers earned a credit on each piece that was returned during the promotion period, resulting in nearly 500 million mailpieces counted during the promotion months.

Additional promotions for the 2014 calendar year encouraged producers of bills and statements to invest in color/print technology, incorporate the use of near-field communication or "enhanced augmented reality" and combine direct mail with mobile technology to facilitate shopping purchases from a mailpiece using a mobile device.

Every Door Direct Mail

Every Door Direct Mail is affordable, simple to use and a convenient way for small- and medium-sized businesses to reach the customers in their own neighborhoods. Its continued growth proves its popularity. Every Door Direct Mail eliminates the need for mailing lists or postage permits and enables customers to drop off their mailings at their local Post Office. Enhancements to the product included online mapping tools, better navigation, easier registration and payment and filters that enable businesses to view and refine the Postal Service routes they want to reach based on demographics. In addition, USPS

launched the Every Door Direct Mail Promotional Coupon Incentive program for new customers, providing a postage credit for mailings that met a certain volume threshold.

Stamp Program

The Postal Service continues to issue postage stamps as a convenient and secure payment method for consumers. While more customers may be using postage they can print themselves at home or at work — especially when discounts are being offered — the basic postage stamp remains popular with consumers and collectors worldwide.

The "Forever" stamp concept was first introduced in April 2007 with a stamp featuring the image of the Liberty Bell and was designed for consumers' ease of use during price changes. In 2011, all domestic First-Class 1-ounce stamps became Forever stamps with the exception of stamps in coils of 3,000 and 10,000, and those formats were added to the Forever program in 2014. Forever stamps sell for the basic First-Class Mail 1-ounce price in effect at the time of sale.

A Global Forever stamp was introduced in 2013; it offers a single price for any First-Class Mail International 1-ounce letter to any country in the world. This Global Forever stamp may also be used to mail a letter up to 2 ounces to Canada.

In FY2014, 35 new stamps were issued with 95 designs recognizing American history, culture, people and achievements. Some of the stamps issued this year — as part of the Postal Service's annual Limited Edition program — paid tribute to individuals as diverse as Shirley Chisholm, Charlton Heston, Janis Joplin, Jimi Hendrix and Harvey Milk, with other stamps featuring subjects as varied as Celebrity Chefs, Hot Rods, Nevada, Circus Posters, Songbirds and the USS Arizona Memorial.

UNITED STATES POSTAL SERVICE ®

USPS® 2014 PROMOTIONS CALENDAR

| JANUARY | FEBRUARY | MARCH | APRIL | MAY | JUNE | JULY | AUGUST | SEPTEMBER | OCTOBER | NOVEMBER | DECEMBER |

FIRST-CLASS MAIL

EARNED VALUE PROMOTION

REGISTRATION
Feb 15–Mar 31

PROMOTION PERIOD
Apr 1–Jun 30

COLOR PRINT IN FIRST-CLASS MAIL TRANSACTIONS PROMOTION

REGISTRATION
Jun 15–Dec 31

PROMOTION PERIOD
Aug 1–Dec 31

STANDARD AND FIRST-CLASS MAIL

MAIL AND DIGITAL PERSONALIZATION PROMOTION

REGISTRATION
Mar 15–Jun 30

PROMOTION PERIOD
May 1–Jun 30

BRANDED COLOR MOBILE TECHNOLOGY PROMOTION

REGISTRATION
Dec 15, 2013–Mar 31

PROMOTION PERIOD
Feb 1–Mar 31

PREMIUM ADVERTISING PROMOTION

REGISTRATION
Feb 15–Jun 30

PROMOTION PERIOD
Apr 1–Jun 30

*Mail prepared/presented as First-Class Mail

STANDARD MAIL

EMERGING TECHNOLOGY FEATURING NFC PROMOTION

REGISTRATION
Jun 15–Sep 30

PROMOTION PERIOD
Aug 1–Sep 30

MAIL DRIVES MOBILE COMMERCE PROMOTION

REGISTRATION
Sep 15–Dec 31

PROMOTION PERIOD
Nov 1–Dec 31

For more information, visit *https://ribbs.usps.gov/index.cfm?page=mobilebarcode*

Sales continue to be robust among the Limited Edition stamps. The Hot Rods led the pack with sales over $25 million; the issues for Chisholm, Hendrix and Vintage Circus Posters each sold over $10 million. Our biggest-selling stamps, featuring Flags, Love or Holiday themes, have sales many times greater.

To expand the reach of U.S. stamps and stamp products, the Postal Service entered into an agreement that provided for a Postal Service store on eBay which launched in July 2013. This new sales channel also opened up new worldwide markets. As of September 2014, over $2.5 million of new revenue has been generated by sales on the Postal Service eBay store.

During 2014, Stamp Services also undertook the complete overhaul of its internal stamp distribution network, consolidating the operations of nine Stamp Distribution Centers and Stamp Distribution Offices into a centralized facility at Stamp Fulfillment Service in Kansas City, MO, and a single additional satellite facility in Dulles, VA. The consolidation was completed just before the end of FY2014, so an analysis of the actual cost savings — expected to be significant — should be available in FY2015.

The Postal Service also is authorized by Congress to issue semi-postal stamps which are used to help raise funds for designated causes. The price of a semi-postal stamp pays for the First-Class Mail single-piece postage price in effect at the time of purchase and reasonable reimbursement of costs to the Postal Service, plus an additional charge. This additional charge (or "differential") helps fund causes designated by Congress, with money going to a congressionally selected executive agency or agencies.

Four semi-postal stamps have been issued since the program began

in 1998 resulting in the donation of $96.2 ($93.6+$1.8+$0.8) million dollars. The two semi-postal stamps on sale in FY2014 were the Breast Cancer Research and Save Vanishing Species stamps.

The Breast Cancer Research stamp (1998–current) generated net proceeds of $1.7 million in FY2014 and $79.3 million since it was first issued in 1998. By law, 70 percent of the net amount raised is given to the National Institutes of Health and 30 percent is given to the Medical Research Program at the Department of Defense. The Save Vanishing Species stamp (September 2011–current) generated net proceeds of $0.2 million in FY2014 (the legislative authorization lapsed in January and was restored in September) and $2.6 million in total since its 2011 release.

For more information about the Postal Service stamp program, visit *www. usps.com/stamps*.

FY2014 usps.com and Postal Store

Throughout FY2014, the Digital Marketing team's focus has been the optimization of *usps.com* and the Postal Store to improve the customer experience and streamline the site, while growing revenue. We began the year with a redesign of the Tracking page, which is by far the most trafficked portion of the site receiving 81 percent of all informational requests, and have been continually making improvements throughout the year. The most notable enhancements were the ability to request text updates via one's mobile device, added in the summer, and Return Receipt After Mailing, launched in September. Also launched in September was *My usps.com* where residential customers can track and manage their incoming packages on a comprehensive dashboard.

The Postal Store launched a fresh new look in April featuring eye-

catching graphics, more intuitive categories and an easily browsed new layout. The improved visual experience and categories make for easier shopping for everything from stamps to free shipping supplies.

Toward the end of the fiscal year, a streamlined *usps.com* site was launched. The site has new navigation to provide customers with a quick, easy and intuitive path to the information or application they are seeking. The look and feel of the content pages was updated and the design better aligns the desktop site with our mobile site. In our continuing push to be "Your Post Office Anywhere," our customers' changing mobile needs is the focus of our efforts. The *usps.com* site is now responsive down to the small tablet screen size, with plans to be fully responsive down to all mobile devices in FY2015. We have also updated our backend technology supporting the site to create greater flexibility and efficiencies as we continue our optimization efforts. These and all the improvements made on the site were based on customer research, usability tests and industry best practices.

Usps.com was also a key component of Brand Marketing campaigns in FY2014 which included Holiday, Spiderman, Small Business and Stamps. Continued optimization efforts were implemented for the applications across the site including launches of and/or updates to Pick up on Demand, Package Intercept, Every Door Direct Mail, Post Office Locator, Click-N-Ship and International Inquiries.

Further optimization efforts to meet our customers' needs have been developed throughout FY2014 with scheduled launches in early FY2015. These include Technical Chat, standardized transactional emails and a redesign and full-integration of the *usps.com* Address Book, used primarily by Click-N-Ship today. All of these changes help USPS deliver to

our customers the right information and the best tools for taking care of all their needs wherever they are.

Usps.com Highlights from FY2014 include the following: FY2014 saw a 6 percent increase in revenue, generating more than $1 billion. Nearly 500 million customers visited *usps.com* and generated more than 2 billion transactions. On average, there were 3.4 million visits per day and overall more than 1.2 billion visits in FY2014. All in all, *usps.com* saw a cumulative increase in traffic of 17 percent over the previous year and continues in an upward trend going into the new fiscal year.

FY2014 Holiday Facts (11/22/13–12/25/13)

- More than 230 million informational requests occurred on *usps.com* during the holidays (USPS Tracking; PO Locator; Look Up a ZIP Code; Request a Pick Up and Calculate a Price).

- More than 190 million requests were made to track a package on *usps.com*.

- Click-N-Ship and The Postal Store generated a combined $103 million in revenue ($68 million and $35 million, respectively).

- Customers generated more than 6.2 million labels using Click-N-Ship throughout the holiday season.

- The Postal Store sold more than 19 million holiday stamps generating more than $9 million with the Poinsettia stamp being the best seller, followed by the Gingerbread and Holiday Baubles stamps.

- 45 million visits to *usps.com* were made from a mobile phone or tablet or 31 percent of the total traffic. More than 950,000 users utilized the USPS mobile apps more than 14 million times in the holiday season.

Retail Products

In FY2014, the partnership with Hallmark allowed the Greeting Card program to expand from 2,000 to 10,000 Post Offices. The Stationery program was also expanded from 300 locations to 800 locations.

The program launched several promotional and awareness campaigns leveraging direct mail and other marketing channels to increase patronage and realize new revenue in new markets. The program also introduced a Spanish-language model line targeting ideal Postal Service locations. Brand Marketing continues to expand the assortment of the greeting card inventory with the intent to increase revenue and enhance the customer experience.

USPS has also been testing open loop gift cards in Post Offices since January 2011. The program has been approved by the Postal Regulatory Commission to offer gift cards as a staple product by the Postal Service. The card line will be expanded to offer both closed and open loop gift cards starting in FY2015.

Advertising Campaign

In 2013, we launched a new campaign, Priority:You, which celebrates the relentless spirit of our employees as we continue to evolve in order to better serve the changing needs of our consumer. Priority:You isn't simply a tagline; it is a statement of purpose. Our priority is, was and always will be serving the American people. Our advertising is designed to communicate this purpose to the world. Told through the voice of our real life employees, we depict the meaningful ways in which we are

constantly changing and innovating. In 2014, our campaign showcased the technology and ways we better serve the American people from text alerts to improved tracking to the expansion of Sunday delivery.

Market Dominant Product Pricing

According to the Postal Accountability and Enhancement Act of 2006, Mailing Services prices, on average, can increase no more than the rate of inflation based on the Consumer Price Index for an Urban Family (CPI-U). There are provisions in the law that allow for increases above CPI-U in exceptional or extraordinary circumstances. This is known as an exigent price change. Facing serious financial challenges and lack of Postal Service reform legislation in Congress, in September 2013, the Postal Service Board of Governors voted to seek price increases in 2014 above the annual increases associated with changes of the CPI. The Postal Regulatory Commission approved the CPI price change of 1.7 percent and a temporary exigent increase of 4.3 percent as a surcharge.

The PRC authorization dictates that this surcharge will remain in effect only until an additional $3.2 billion of incremental revenue above what the Postal Service would have recovered through a CPI-U increase alone is generated.

The Postal Service has filed an appeal with the U.S. Court of Appeals for the District of Columbia asserting that the PRC erred in its decision to limit the duration of the exigent price increase. The outcome of this appeal cannot be determined at this time.

In January 2014, overall Mailing Services prices increased by an average of 6 percent. The Postal Service increased the price of a 1-ounce letter by 3 cents to 49 cents. Prices also increased for postcards, large flat envelopes

and First-Class Mail presort letters and cards. The price for a 1-ounce letter to all international destinations increased to $1.15.

In September 2014, 1.2 million Post Office Boxes were moved from Market Dominant to Competitive.

Digital and Other Innovations

Innovation is the fuel for the Postal Service to thrive. The Postal Service will continue to embrace opportunities to bridge the physical and digital divide by developing solutions that fit the lifestyle of Americans — always connected, demanding ease and convenience, expecting real-time information and embracing personalization.

Real Mail Notification

New technologies have created customers who expect to be able to manage their lives — and their mail — from their smart phones. In FY2014, the Postal Service began testing the feasibility of Real Mail Notification, which gives mobile users emailed images of their hardcopy mail, as an advance notice of the mail they will be receiving at home later that day. About 37,000 customers in Northern Virginia were invited to test this service. More than 5,700 users registered, with more signing up every day. The insights and data generated by this test will help USPS understand this dynamic market and determine whether to expand this digital service.

My usps.com

A majority of consumers say they want greater control over their package deliveries, according to research conducted for the Postal Service. To meet that need, we introduced the *My usps.com* online "dashboard." This application lets residential, registered customers manage and track their incoming USPS domestic packages that have tracking numbers — in one

place. Customers can pick individual packages to check on status and provide delivery instructions. They also can get email or text notifications for incoming packages. The dashboard is linked to a residential customer's *usps.com* profile.

In the first week after launch, the application saw more than 3,000 users register to access package tracking information conveniently through their dashboard. *My usps. com* also benefits commercial shippers whose customers can follow the progress of their packages online, potentially reducing call center inquiries about delivery status.

USPS Mobile

Mobile solutions are essential to providing information and real-time data for Postal Service customers. The Postal Service's mobile website provides on-the-go access to tracking information, Post Office locations, ZIP Code information and more. The mobile website gets over 200,000 visits each day — and this number is growing. To meet the demand of an increasingly mobile-connected nation, the Postal Service launched enhancements to make the mobile website work even better for customers. These improvements included streamlined navigation and updated design to provide a seamless experience for our customers.

Click-N-Ship Business Pro

The Postal Service introduced a new desktop manifesting solution for primarily small- and medium-sized business customers. Click-N-Ship Business Pro is designed to allow commercial package mailers to generate and print labels with Intelligent Mail package barcodes, electronically create and submit shipping manifests through our Electronic Verification System, generate electronic postage statements and pay through electronic payment processes. Click-N-Ship Business Pro features

simplified onboarding and registration through the Business Customer Gateway that can be completed in as little as 15 minutes. Once the free software is downloaded and account setup is completed, customers will be ready to start shipping.

In support of its innovation efforts, the Postal Service will continue to develop and enhance the technical systems and assets that enable an effective and efficient flow of information between USPS and its customers. We're committed to providing a consumer- and business-friendly environment that makes it easy to start doing business — and keep doing business — with the Postal Service through our Web and mobile platforms, applications and technical integration.

Global Business

The Postal Service is continuing its long-term strategy of becoming a premier world-class global logistics services provider by enhancing international mailing products and services, creating and strengthening business tools and aggressively marketing its global services to retail, corporate and non-profit customers throughout the United States and abroad.

Global Business continues to work diligently on strengthening our international network, improving and fine-tuning region-specific pricing for higher volume customers, improving software applications specifically for international business mailers and designing new products appropriate for the rapidly evolving and burgeoning global eCommerce market. Global Business is also fully engaged in areas ranging from customs compliance to export trade regulation in an effort to promote international security measures which protect U.S. interests while creating an environment in which international commerce is not hampered.

Commercial Outbound ePacket

As the Commercial Outbound ePacket service continues to meet the needs of eCommerce merchants for low value, lightweight items up to 4 pounds, Global Business expanded the service to additional countries in 2014. At present, the Postal Service has added the Commercial Outbound ePacket service to 27 countries and will continue to expand to additional countries in the future.

Global Business Renews Agreement with FedEx Express for Global Express Guaranteed

Global Business successfully negotiated a new agreement with FedEx Express to handle the international transportation and delivery of Global Express Guaranteed (GXG) service. The new agreement provides USPS with an international service that aligns with its competitors' expedited services while allowing USPS to remain competitive with its pricing. Global Business is also building consumer awareness of the service by marketing GXG at its retail locations.

Ongoing Bilateral Agreements

The two-year bilateral agreement with Canada Post was renewed in 2014 with the aim of close collaboration, leveraging the U.S. and Canadian postal network to meet the demands of cross-border eCommerce customers through innovative services focused on increased reliability, visibility and predictability, with day-certain delivery and optimal door-to-door service performance. The two-year bilateral agreement with Australia Post was renewed in 2014 with the aim of close collaboration and leveraging the U.S. and Australian postal network to work on new solutions and meet the demands of eCommerce customers through enhancing our package services focused on increased reliability

and visibility to improve service performance. In the Asia/Pacific region, the bilateral contract with the postal administration of the China Post Group was renewed in April 2014. Other bilateral agreements under review and in the process for renewal include the Netherlands, Korea, Hong Kong, Singapore and Vietnam. Global Business continues to seek additional signed bilateral agreements with other posts.

International Inquiries Online

Global Business, in conjunction with the digital media team, launched the International Inquiries Online application on *usps.com* in September 2014. The application provides U.S. senders of international shipments a streamlined end-to-end inquiry process, 7 days a week, 24 hours a day, 365 days a year. Customers must register or be a registered user on *usps.com* in order to submit their inquiries online, view real-time status updates or upload supplemental information for their inquiry. This feature not only improves customer access to the international inquiry process, but it also reduces Postal Service costs and improves overall customer satisfaction.

Priority Mail International Regional Rate Box

The Priority Mail International (PMI) Regional Rate Box (RRB) has gained some interest from eCommerce companies, as well as logistics providers who ship small packages internationally. The PMI RRB is a service that is complementary to the USPS Domestic Regional Rate Box and encourages mailers with volume and heavier shipments to take advantage of pricing incentives for bulk or repeat customers. PMI RRB is very popular among shippers who incur dimensional weight charges. Additionally, the product will be promoted in 2015 across many sectors of commerce such as fashion, retail and electronics. This product is both eCommerce

compatible and cost-effective and promotes higher volume discounted mailings to specific geographic areas.

USPS International Merchandise Return Service

This highly innovative and attractive eCommerce service was initiated by Global Business in August 2013. The International Merchandise Return Service (IMRS) is currently available to overseas customers in Canada and Australia. IMRS is a trackable inbound return service for merchandise up to 66 pounds that uses the online generation of "no postage necessary" shipping labels, and customs declarations. The IMRS solution simplifies the return process for the overseas buyer by eliminating the need to pay postage when tendering the return package to the overseas post. The buyer simply applies the label to the package and tenders it to the post, and the U.S. merchant is charged when the product arrives at the USPS delivery Post Office. This product is designed to entice additional customers in these designated foreign countries to use the Postal Service as their shipper of choice due to this desirable enhancement to the eCommerce process. Increasing volumes and additional participating countries are anticipated throughout 2014 and 2015.

Global Shipping Software

Global Business developed and maintains the Global Shipping Software (GSS) which helps qualifying mailers meet USPS and U.S. Customs requirements for international shipments. USPS mailers, consolidators and companies shipping through consolidators can use GSS to generate up-to-date compliant mailing and customs documentation and postage statements. By processing mailpieces through GSS, sender information, recipient and content of mailpieces are collected and passed to U.S. government agencies who use it

for recipient screening or content monitoring operations. By updating GSS quarterly, the USPS can keep up with evolving export requirements in a uniform way that minimizes the burden on individual mailers to make changes to their processes or systems.

V. Managing the Postal Workforce

The Postal Service workforce is our strongest asset and is integral to everything we do. Our desire is to foster an innovative, high-performing and professional workforce that enables every employee to deliver exceptional value to our customers. The Postal Service recognizes that our business and people are changing. The future workplace, workforce and competitive landscape require us to implement workforce initiatives today to improve our operations, policies and procedures in preparation for tomorrow.

Managing the Changing Face of the Organization

Numerous factors impact our employees, including network rationalization and restructuring the retail environment. The aging of the American population also reflects in the faces of our employees, and we will continue to manage multiple generations in the workplace. As our package business grows and as our employee population transforms, we will continue to implement employee-centered Human Resources programs.

Shifts in the career–to–non-career employee ratios reflect cost containment measures and the growing need for on-demand shipping necessitates a more flexible workforce. In response, we hired over 80,000 non-career employees in FY2014 including PSEs, CCAs and MHAs. Recruitment, hiring and retention of non-career employees involved outreach via social media

outlets, attendance at over 20 job fairs for CCAs and the launch of a realistic job preview video (subtitled in Spanish) for CCAs. We recognize that retention of the non-career workforce begins with on-boarding. In FY2015, we will engage employees before their first day of service and provide ample training to ensure individual and organizational success. New entrants to the Postal Service workforce will desire greater flexibilities, development programs and technologies for increased collaboration, productivity and engagement. Our focus on building the workforce of the future is aimed at meeting these needs.

The Postal Service career workforce has an average tenure of 15.3 years of service and is an average age of 49[5]. Currently 33 percent of our population is optionally eligible to retire. As our average age continues to rise, identifying successors will be critical to filling voids created by retiring employees. Furthermore, an aging workforce will increase the need for knowledge management and alternative career paths. To address these needs in FY2014, we redesigned the leadership development programs, included non-career employees in employee engagement surveys and continued the refinement of communications to obtain vital feedback and input from employees.

Engaging Employees

The Postal Service highly values employees' opinions about their work environment and the effectiveness of USPS programs, policies and strategies for success. In 2014, the Postal Service took another major step towards engaging its entire workforce by extending the opportunity to participate in the VOE survey to not only career employees, but to all Postal Service employees, including PSEs, CCAs and MHAs. These employees are indispensable

members of our workforce whose opinions are also highly valued. Their survey participation rate of over 70 percent is clear evidence they both desire and value the opportunity to participate in the VOE survey program.

Each year, we set challenging targets for employee engagement levels. In 2014, we experienced improvement quarter-over-quarter and improvement over the 2013 baseline score. We achieved an end-of-year score of 65.01[6] and our employees continue to express high levels of commitment to the organization. For example, 77 percent of employees indicated they were proud to work for the Postal Service, and 75 percent feel personally responsible for helping the organization succeed. The scores for each of these questions is a full percentage point higher than they were at the end of 2013. In 2015, we will redesign our VOE survey to help promote increased levels of employee engagement. The survey will also be redesigned to provide more actionable insights and allow for more robust reporting. We will also provide supervisors and managers with targeted and actionable analytics and a comprehensive set of action planning tools.

Maintaining a Safe and Healthy Workplace

In FY2015, the Postal Service will increase focus on at-risk employees and those who are new to the organization and less familiar with safe work practices. To refine this focus, the Postal Service will enhance reporting capabilities to allow for a proactive approach in tailoring safety programs to address concerns at a local facility level. Our efforts to improve accident reporting and analysis began with the launch of the new safety dashboard, an advanced reporting tool made available to field safety professionals. Providing real-time, informative data will quickly help

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[5] EDW/HRBI as of July 30, 2014.
[6] The VOE target for FY2014 was 65.10 and the actual was 65.01, a shortfall in meeting the goal by 0.09.

Operating Statistics (see page 67)
Career Employees

(actual numbers, unaudited)

	FY2014	FY2013	FY2012
Headquarters and HQ related employees			
Headquarters	2,934	2,967	2,922
Headquarters — field support units	3,618	3,870	4,189
Inspection service — field	2,376	2,411	2,403
Inspector general	1,132	1,135	1,124
Total HQ and HQ related employees	10,060	10,383	10,638
Field employees			
Area offices	818	807	805
Postmasters/installation heads	16,538	17,804	17,376
Supervisors/managers	23,035	22,940	23,566
Professional administration and technical personnel	4,353	4,375	4,501
Clerks/nurses	118,925	118,751	139,666
Mail handlers	38,910	40,102	42,033
City delivery carriers	164,626	167,388	176,808
Motor vehicle operators	6,603	6,598	6,885
Rural delivery carriers — full-time	66,373	66,099	66,549
Building and equipment maintenance personnel	32,807	30,737	34,705
Vehicle maintenance employees	5,252	5,033	4,926
Total field employees	478,240	480,634	517,820
Total career employees	488,300	491,017	528,458
Noncareer employees			
Casuals	1,658	1,779	5,651
Postal support employees	24,781	28,793	20,281
Nonbargaining temporary	276	249	3,537
Rural part-time: subs/RCA/RCR/AUX	48,099	46,607	48,170
Postmaster relief and leave replacements	13,207	13,454	8,727
City carrier assistant (CCA)	36,081	30,433	0
Mail handler assistant (MHA)	5,475	5,382	0
Transitional employees	0	0	14,204
Total noncareer employees	129,577	126,697	100,570
Total employees	617,877	617,714	629,028

Note: *The Postal Support Employees category was created in 2011.*
Note: *The City Carrier Assistant and Mail Handler Assistant were newly created positions in 2013.*

identify accident causes and facilities where targeted interventions are required. A major part of these safety programs will be designed to address ergonomic impacts associated with the lifting, handling and repetitive motions required in all aspects of delivery, especially parcel delivery. In FY2014, the OSHA Injury and Illness (I&I) frequency rate for the Postal Service was 6.32 per 100 employees — a 12 percent increase over last year due to severe winter weather during December 2013 through February 2014.

When employees are injured while on duty, the Postal Service proactively works to return employees to meaningful productive work. In FY2014, the Postal Service's Return to Work initiatives contributed significantly in the reduction of the benefits paid (minus the Fair Share Administrative Fee) to the Department of Labor/Office of Workers' Compensation Programs (DOL/OWCP) for all injured workers (POD and USPS) by $1.7 million. In FY2015, the Postal Service will strengthen wellness programs to help reduce ergonomic and other workplace injuries, support employee health and foster a workplace where employees are productive and available.

Innovative and Impactful Training Programs

The demographic shift to a part-time workforce in FY2014 resulted in an increase in newly hired employees and the need to provide Orientation for New Employees (O.N.E.) training for over 80,000 employees in a more efficient manner. Accordingly, more emphasis was placed on the use of blended learning curriculum and the usage of technology-based methods such as virtual classroom instructor-led training and eLearning.

In FY2014, the Postal Service trained more than 131,000 employees using the virtual classroom delivery method, an increase of 78 percent over the prior year. For eLearning, we nearly doubled from 1.1 million to 2.1 million total learning completion hours. The Postal Service's use of technology-based learning at 33 percent was comparable to the industry best practice of 38.7 percent.

In addition to the orientation program, we provided position-specific training to over 31,000 city carriers; 17,000 rural carriers; 68,000 Postal Support Employees and 12,000 other part-time employees. In order to improve the customer retail experience, we redesigned, developed and delivered blended learning curricular to more than 5,600 sales and services associates. We also trained over 10,000 sales and services associates on the new Advancing the Retail Customer Experience and Performing Lobby Assistance courses.

We redesigned and implemented the Vehicle Maintenance training program and reduced the need for technicians to travel to the National Center for Employee Development in Norman, Oklahoma. This resident-based classroom training experience was streamlined from 27 days to 13 days onsite training. Vehicle Maintenance technicians received training at their local facility using virtual classroom, handheld mobile devices and "bug" boxes (diagnostic error simulators) to create effective experiential learning. This is a key innovation for the Postal Service to transition classroom training to the employees' workplace at the moment of need.

All these redesigned training programs and the increased use of blended learning technology made training more accessible and more cost-effective and as a result empowered our employees to deliver more impactful business results.

Developing the Next Generation of Postal Leaders

As the business environment continues to evolve and retirement eligibility becomes a more significant risk, the Postal Service proactively works to strengthen its leadership pipeline. The Postal Service is implementing development strategies to identify, assess and train the next generation of leaders at all levels of the organization. Several important outcomes of the Postal Service's Talent Management programs were achieved in FY2014, including:

- In response to restructuring, the Postal Service held a Corporate Succession Planning (CSP) Interim Talent Review to assess the health of successor pools and to identify risks and opportunities. As a result, 93 percent of the critical PCES positions now have at least 1 "Ready Now" Potential Successor and 128 new Potential Successors were added to CSP (an increase of 7.8 percent).

- To support Individual Development Planning (IDP), centralized funds were dedicated for the development of CSP Potential Successors that are "Ready Now" or "Ready in 2 years" (and/or developing for a position that is a critical need for the organization).

- Thirty Senior Executive Development Plans (EDPs) were created as a result of participation in the Senior Executive Assessment and Development Center.

- The Advanced Leadership Program (ALP) business case model was modified to affect higher visibility for the recommended innovative solutions developed by program participants. Prior to being presented to the Executive Leadership Team for

possible adoption or continued development, solutions were initially presented to an all Officer panel — exemplifying the notion of "Leaders Teaching Leaders."

To prepare employees for career advancement, learning opportunities are available for managers, executives, officers and senior executives. In FY2014, 442 individuals participated in a leadership development offering. The chart below summarizes participants by program.

Program	FY2014 participants
Managerial Leadership Program	202
Advanced Leadership Program	62
Executive Foundations	68
Executive Leadership	27
Senior Executive Assessment and Development Center	31

Equal Employment Opportunity

The Postal Service is committed to providing equal employment opportunity (EEO) for all employees. EEO is viewed as a critical component in the Postal Service efforts to recruit, develop and retain a diverse workforce. The Postal Service will not tolerate harassment of any type and holds managers responsible for preventing it.

The Postal Service provides high-quality and timely complaint processing in accordance with EEOC regulations. During FY2014, a total of 12,514 informal complaints were filed. There were 416 fewer informal complaints filed than the year prior. For the same time period, there were 4,077 formal complaints filed, which was 317 fewer formal complaints than the same period last year.

EEO Compliance and Appeals published Management Instruction EL-650-2014-2, *Representation of Postal Service Employees in Administrative Proceedings*. The management instruction is a consolidation and restatement of existing regulations and policies.

It updated a memorandum of policy dated March 26, 1986. Organizational responsibilities were updated to reflect the current organization structure.

Federal Employee Anti-discrimination and Retaliation Act of 2002 ("No FEAR Act") Training was developed and administered through the Learning Management System to all employees. This mandatory strategic training initiative informed employees of the rights and remedies available to them under anti-discrimination and whistleblower laws and Postal Service regulations.

Initial Management Inquiry Process (IMIP) Lunch and Learn Forums were conducted in July and August, continuing the Postal Service's commitment to being proactive in complaint prevention. Career and non-career Headquarters, Headquarters-related and field employees were provided current and up-to-date information, in person and via WebEx, regarding the IMIP and how to identify, address and prevent harassment in the workplace.

Publication 553, *Employee's Guide to Understanding, Preventing, and Reporting Harassment*, was revised in September to add the Office of Inspector General as a source for employees to report harassment claims, to update language concerning gender identification and gender stereotyping, to add Uniformed Services Employment and Reemployment Rights Act (USERRA) information and reiterated the Postal Service policy of providing a work environment free of all forms of harassment.

Disability Program

The Postal Service employs over 2,800 employees who are deaf or hard of hearing, and we make various communication accommodation options available to enhance their work experience and foster a more engaged workforce.

We offer Sorenson Communications Video Remote Interpreting (VRI) service at Postal Service facilities throughout the country, which provides real-time communication, 24-hours per day, between individuals who are deaf or hard of hearing and hearing individuals who are in the same location using a remotely located video interpreter, videophone technology and a high-speed Internet connection. As soon as the call is connected, the interpreter appears on the computer monitor screen. The individuals can see and hear the remote interpreter, and the interpreter can see and hear the individuals in the room. We also provide in-person interpreters with contracted companies or organizations for certain events.

In addition to teletypewriters (TTY) and captioned telephones, we also provide Sorenson ntouch™ videophones which support Video Relay Service (VRS), allowing individuals who are deaf or hard of hearing to communicate with hearing individuals via a remote sign language interpreter.

The Disability Program, which is part of EEO Compliance and Appeals, assisted in the development of a web-based course made available to all Postal Service employees via our Learning Management System (LMS) titled Providing Communication Accommodations. This course instructs supervisors and managers in recognizing and properly handling requests for reasonable accommodation from individuals who are deaf or hard of hearing. In addition, students learn about the different types of communication accommodations available at USPS so they are able to assist in establishing effective communication plans.

Beginning in FY2015, this course will be required training for all supervisors and managers in the Postal Service under the Strategic Training Initiative.

Compensation and Benefits

In FY2014, non-bargaining employees, including officers and executives, received a 1 percent general pay increase. Due to the Postal Service's continued financial crisis, no pay or bonuses were issued under the Pay for Performance program, which is designed to provide financial incentives for meeting specific performance targets. Employee performance monitoring remains a part of the Postal Service management system. Employees set goals annually and individual performance is reviewed at mid and end-of-the-fiscal year. The Postal Service continues to actively monitor and control compensation and benefits expenditures, including health care costs for employees and retirees.

Executive Compensation: Total Compensation in Excess of Federal Executive Level 1 Compensation ($199,700 in last full Calendar Year, 2013):

Executive name	CY13 amount in excess of Level 1 of the Executive Schedule
Megan J. Brennan	$35,300
Joseph Corbett	$39,300
Patrick R. Donahoe	$77,140
Nagisa M. Manabe	$40,300
Thomas J. Marshall	$11,438
Jacqueline K. Strako	$1,222
Ronald A. Stroman	$45,300
David C. Williams *	$61,812
Jeffrey C. Williamson	$20,223

* Includes annuity paid by Office of Personnel Management.
Note: Provided in compliance with Title 39, Section 3686(d) which requires compensation in last full calendar year.

Supply Management

Supply Management (SM) continued to support the mission of the Postal Service by aligning its resources to support Delivering Results, Innovation, Value and Efficiency (DRIVE) programs and delivering timely, lean supply-chain solutions. In FY2014, SM supported Delivery Operations by procuring 665 new mixed delivery and collection vehicles, 3,509 new carrier route vehicles and 75,000 new mobile delivery devices. We reduced environmental risk by initiating centralized tank monitoring services for bulk fuel tanks around the nation. SM awarded contracts for over 400 new VPOs and 116 new Contract Postal Units (CPUs) to provide alternative revenue channels and improve public access to Postal Service products. We supported Retail Operations by issuing new contracts to deploy over 46,000 POS payment terminals and over 3,800 kiosks to meet new PCI requirements. In addition, SM awarded the first Emergency Mobile Fuel Response contract to secure dedicated mobile fueling equipment and a supplier to respond during emergency situations anywhere in the continental United States.

VI. Supplier Diversity

The Postal Service strives to maintain an optimal supply chain that consists of engaging suppliers who offer value-added solutions to keep our business on the path to long-term sustainability. To do this, the Postal Service is committed to providing contracting opportunities to small, minority-owned and women-owned businesses (SMWOBs). We strive to incorporate "agility," which includes flexibility, balance and speed, throughout our supply chain. Historically, SMWOB suppliers have demonstrated business agility by maintaining and adapting goods and services to meet customer demands, while adjusting to changes in the business environment.

In FY2014, the Postal Service had contract commitments that exceeded $3.8 billion with small businesses; $434 million with minority businesses; and $677 million with women-owned businesses.

Supplier Diversity, an integral part of the Postal Service business strategy, continues to identify ways to open avenues to discover new supplier capabilities, innovations or alternative solutions. In FY2014, Supply Management participated in the following Supplier Diversity outreach activities:

- Acted as a liaison with industry and trade associations, government agencies and special emphasis groups to develop and maintain a communication and information system on small, minority-owned and women-owned business issues (e.g., benchmarking studies and policy updates).

- Conducted supplier forums to share information on Postal Service corporate business objectives.

- Registered over 1,600 suppliers to do business with the Postal Service via the electronic portal.

- Developed and incorporated new clauses and provisions to ensure sustainability in the procurement process.

- Evaluated proposals and solicitation criteria to ensure the consideration of SMWOB participation.

- Collected, analyzed and reported quarterly direct awards and subcontracting data.

- Named "America's Top Government Agency for Multicultural Business Opportunities for 2014" by *DiversityBusiness.com.*

VII. Maintaining Focus and Accelerating Growth

The Postal Service has adopted a structured management process, Delivering Results, Innovation, Value and Efficiency (DRIVE), to improve business strategy development and execution against our major goals. It is sponsored by the Postmaster General with direct oversight from the Executive Leadership Team (ELT).

This process is based on a well-established methodology used by many corporations to apply strategic and financial rigor to decision-making, and to navigate through significant organizational changes. This structured approach to organizing operational and management activities facilitates cross-functional dialogue and collaboration, provides streamlined reporting and accountability and incorporates measurement, analysis and evaluation of a portfolio of strategic initiatives.

Progress is tracked through a detailed reporting system and is reviewed every two weeks by the ELT for the Postal Service. In FY2014, we continue to make improvements to our governance processes using industry best practice approaches to ensure successful outcomes.

The DRIVE portfolio of initiatives is dynamic and changes as priorities and resources require, and as programs are completed or adjusted based on external events. These initiatives support Postal Service corporatewide goals as shown in the table on page 73. In FY2014, the Postal Service focused on the implementation of a portfolio of 19 strategic initiatives to meet its ambitious performance and financial goals. To date, the DRIVE portfolio has been able to drive significant revenue and cost savings measures through our initiatives to make a positive impact on the Postal Service financial outlook in FY2014 and beyond.

The strategic initiatives identified for FY2014 were designed to respond to the changing environment of the Postal Service moving from a solely economic model to a model focusing on change, improvement and increasing our competitiveness to increase revenue generation. Many of these initiatives contribute to achieving multiple goals. For example optimizing our facility footprint and customer growth and retention are very important for revenue generation, while optimizing our network and delivery operations are important to increasing our efficiency and driving growth.

We continue to refine and grow our initiatives to best serve the overall needs of the Postal Service. To that end, the table to the right of this page demonstrates our DRIVE portfolio of initiatives in FY2014 and the changes to the portfolio since FY2013.

The changes to our initiatives can be categorized by the following four actions (see table on pg. 73):

1) �흐 New — Initiative has been created in FY2014 to address an emerging business need.

2) ⇔ Continued — Initiative continued into FY2014 with minimal changes from FY2013.

3) ⊗ Closed — Initiative was closed as a result of a completed activity or change in business need.

4) ⇑ Refined — Initiative has been refined to reflect the current business situation and to achieve greater alignment with organizational goals.

5) ‡ Combined — Initiative has been combined with a similar DRIVE initiative(s) to more accurately reflect the current business situation and provide greater alignment organizationally.

DRIVE Governance and Implementation

We use a structured, disciplined project management process to govern DRIVE. This includes ideation and portfolio selection, charter development, plan execution and cross-functional review, and regular monitoring and bi-weekly intensive senior management review.

VIII. Corporate Social Responsibility and Sustainability Performance

Community Engagement

When it comes to serving communities, the U.S. Postal Service delivers more than just mail and packages. The Postal Service is part of the fabric of the nation, and Postal Service employees make a difference in every community across the country.

Postal Service letter carriers collected 72.5 million pounds of food on May 10, 2014, from the donations of thousands of communities throughout America for the annual Stamp Out Hunger Food Drive. This represented the 11th consecutive year the event has surpassed 70 million pounds and adds to the more than 1 billion pounds of food collected since the Stamp Out Hunger Food Drive began in 1993 to feed countless families in need. Stamp Out Hunger, the nation's largest single-day food drive, was launched in 1993 by the National Association of Letter Carriers and is supported by the Postal Service. Canned and non-perishable items are collected by 230,000 letter carriers and other Postal Service employees in 10,000 cities and towns in all 50 states, the District of Columbia, Puerto Rico, the Virgin Islands and Guam.

Each year in May, the Postal Service supports National Dog Bite Prevention Week. This public safety campaign builds awareness

FY2014 Initiatives

Corporate Goal	Strategies	FY2013 Initiatives	Change Year Over Year	FY2014 Initiatives
Deliver High-Quality Services	Optimize Cost of Operations and Infrastructure to Match Future Demands	Optimize Network Operations	⇔ Continued	Optimize Network Operations
		Optimize Delivery Operations	⇔ Continued	Optimize Delivery Operations
		Transform Access	⇔ Continued	Transform Access
		Optimize Facility Footprint	⇔ Continued	Optimize Facility Footprint
		Build a World-Class Package Platform	⇔ Continued	Build a World-Class Package Platform
Provide Excellent Customer Experiences	Improve Customer Experience Measurement Processes	Improve Customer Experience	⇔ Continued	Improve Customer Experience
	Leverage Technology to Drive Business Value	Streamline Commercial Mail Acceptance & Enterprise Payment	⇔ Continued	Streamline Commercial Mail Acceptance & Enterprise Payment
		Achieve 6-Sigma IT System Reliability	⇑ Refined	Business Innovation Through IT
		Achieve 100% Product Visibility	⇔ Continued	Achieve 100% Product Visibility
Sustain Controllable Income	Grow Revenue from Innovation, Core Products & Markets	Build Funnel & Launch Innovation	⇑ Refined	Manage Funnel & Launch Innovations
		Acquire, Grow & Retain Customers	⇑ Refined	Customer Growth & Retention
		Market New and Existing Products	⇑ Refined	Market New and Existing Services
		Grow Small Business Revenue	⇔ Continued	Grow Small Business Revenue
		Integrate Costing & Pricing for Profitable Growth	⇑ Refined	Greenfield Costing
	Establish the Digital Platform	Establish the Digital Platform	⇔ Continued	Establish the Digital Platform
	Strengthen Financial & Risk Management Capabilities	Obtain PCI Compliance	⇔ Continued	Obtain PCI Compliance
		Achieve 100% Customer & Revenue Visibility	⇔ Continued	Achieve 100% Customer & Revenue Visibility
		Enhance Enterprise Risk Management Capabilities	⇔ Continued	Enhance Enterprise Risk Management Capabilities
			⊎ New	Revenue Assurance
Ensure Safe Workplace and Engage Workforce	Build Competitive Workforce of the Future	Analyze Workforce Needs & Manage the Change; Develop Labor Agreements to Build the Future Workforce; Improve Employee Availability; Resolve Disputes Effectively; Establish USPS Health Care Plan; Leadership Identification and Development	‡ Combined	Building the Workforce of the Future

concerning animal attacks. Nationwide, 5,581 Postal Service employees were attacked last year. Yet of the 4.5 million Americans bitten by dogs annually half are children, according to the Centers for Disease Control and Prevention. The Postal Service, the medical community, veterinarians and the insurance industry are working together to educate the public that dog bites are avoidable.

Working with Valassis Communications, Inc., the National Center for Missing and Exploited Children and the U.S. Postal Inspection Service implemented the "Have You Seen Me" campaign to demonstrate the power of the mail. The campaign has returned 152 missing children to their families (as of December 2013).

Each year, Postal Service employees go beyond the call of duty, some even risking their own safety to save the lives of the customers they serve. In 2013, the Postal Service recognized 262 employee heroes. At its annual heroes awards banquet in Washington, DC, this year, Greenwich, CT, City Carrier Assistant Jermaine Shirley received top honors from the National Association of Letter Carriers. Shirley was honored for catching infant twin boys who were tossed from a third-floor fire escape during a raging apartment fire.

The Postal Service, National Marrow Donor Program and Be the Match Foundation created the "Delivering the Gift of Life" campaign 17 years ago. To date, 59,125 Postal Service employees and their families have joined the donor registry.

National Consumer Protection Week – The Postal Service and the U.S. Postal Inspection Service dedicate one week in March every year to educate consumers about identity theft and other fraud schemes and provide tools and information to combat these crimes.

Letters To Santa – Since 1912, Postal Service employees, charities and individual and corporate volunteers have helped children and families in need experience the magic of the holiday season by answering letters to Santa. For more than one hundred years Postal Service employees, volunteers and organizations remain committed to making children's holiday wishes come true.

Sustainability Performance

The Postal Service is committed to reporting the results of our sustainability efforts every year. Our targets are in conjunction with those established through Executive Order in terms of reductions and base years for comparison. In FY2014, we achieved the following:

- Total greenhouse gas emissions were down 12 percent.

- Facility energy use was down 33 percent.

- Water usage was down 41 percent.

- Consumables purchased were reduced by 41 percent.

- Waste diversion from landfill was 40 percent.
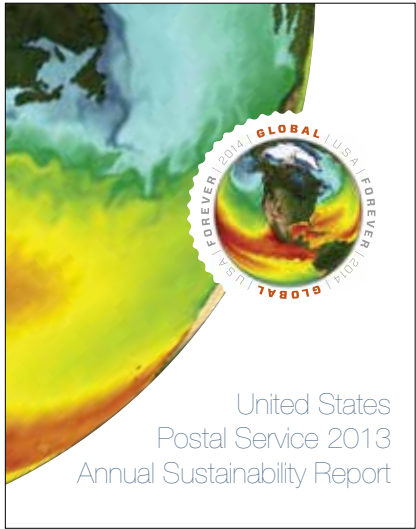
- Transportation fuel use increased 8.5 percent.

The first four results met or exceeded our targets. The diversion from landfill to recycling is below target, but we are already implementing a plan to drive this diversion to over 90 percent. The continued increase in fuel use is due to an aging fleet of vehicles that must be replaced.

Annual Sustainability Report

Every year the Postal Service releases an Annual Sustainability Report which reflects on the prior year's performance. The *2013 Annual Sustainability Report* was released in April 2014. This year, the report featured the new Global

Sea Surface Temperature stamp which is based on a computer model of the Earth's climate by the National Oceanic and Atmospheric Administration's Geophysical Fluid Dynamics Laboratory. Seeing the world in a new way helps us to remember that we all share one planet, and it is our responsibility to be good stewards of our environment as we focus on our daily operations.

http://about.usps.com/what-we-are-doing/green/pdf/2014-sustainability-report-print.pdf

United States
Postal Service 2013
Annual Sustainability Report

Climate Change Adaptation and Mitigation

The Postal Service has a responsibility to provide universal mail service to the citizens of the United States. This includes when severe weather events destroy or damage portions of the Postal Service infrastructure, or otherwise disrupt mail service. We are quick to respond and restore services. As our climate changes, these disruptions may occur more frequently, and we must be prepared to respond accordingly.

Toward this effort, the Postal Service has convened a Climate Change Adaptation Working Group (CCAWG) that operates cross-functionally to integrate a changing climate into the Postal Service's operational and

long-term planning, strategies and processes. In June 2014, USPS submitted to the White House Council on Environmental Quality the *Climate Change Adaptation Plan*. This public plan identifies and prioritizes actions for USPS to better understand and address the impact of climate change.

The Postal Service also submitted an *Internal Climate Change Adaptation Plan* to the Postmaster General in September 2014. This more involved document discusses the steps each functional group is taking to integrate climate adaptation into our business processes so we can adjust to future changes and improve our ability to respond to climate-related risks.

Moving forward, the CCAWG will continue to identify actions and prioritize new and existing actions to address the challenge of making the Postal Service climate resilient. You can read our plan at: *http://about. usps.com/what-we-are-doing/green/ climatechange.htm.*

Underground Storage Tanks

The Postal Service conducts Environmental Compliance Reviews each year at select facilities throughout our network. After analyzing these reviews from the last few years, it was readily apparent that underground storage tanks were our highest risk. In FY2014, USPS launched a national program to remove underground petroleum storage tanks based upon environmental risk and tank failure criteria and replace, where needed, with new tanks designed per Environmental Protection Agency (EPA) and industry standards. The complete removal and replacement program will address 298 storage tanks over the next five years.

In addition to removing and replacing underground storage tanks, the program also establishes a centralized national monitoring system, implements on-site compliance support for all tank sites and utilizes a system repairs and emergency response process.

USPS BlueEarth Federal Recycling Program (for Electronic Waste)

With the knowledge gained from our own sustainability efforts, the Postal Service also is committed to assisting our customers in achieving their own green objectives.

The USPS BlueEarth Federal Recycling Program is part of a branded suite of products and services that provide sustainability solutions and innovations to our customers. The Federal Recycling Program provides government agencies and their employees with the ability to securely and efficiently recycle unwanted electronic devices free of charge on a national level. Recycling programs help prevent e-waste from going to landfills, which can be dangerous to both the environment and to human health.

Sixteen federal agencies are currently enrolled, including the Postal Service. Federal agencies receive a Recycling Activity Report with data to assist them in meeting Executive Order 13514 sustainability requirements. Additionally, it has been recognized as an example of Federal Government Leading by Example under the National Strategy for Electronic Stewardship.

All federal agencies can enroll in the USPS BlueEarth Federal Recycling Program to recycle unwanted electronic devices using the Postal Service network. This program makes it simple for federal agencies and their employees to properly dispose of items such as ink cartridges and obsolete or unwanted small electronics. All of the devices are shipped to a certified third-party recycling facility, which ensures they are either securely recycled or remanufactured for resale opportunities.

Besides providing employees and other agencies with the ability to simply, securely and cost-effectively recycle e-waste, the USPS BlueEarth Federal Recycling Program also increases mail volume and postage revenue. For information about how federal agencies can participate, visit *http://blueearth.usps.gov/.*

National Recycling Operation

As previously stated, the Postal Service only diverted 40 percent of its waste from landfills to recycling. We strongly believe we can significantly increase this percentage and do so in a financially beneficial way. The Postal Service generates a large amount of recyclable material, the majority of which is mixed paper. We continue to incur disposal costs to handle much of this material which would better be turned into revenue through recycling. Just like many other organizations in the transportation, shipping and service sectors in the U.S. economy, the Postal Service is increasingly looking to leverage its existing reverse logistics capabilities into business opportunities. For the Postal Service with its extensive nationwide transportation network, the opportunity is significant.

In FY2014, USPS launched a five-year National Recycling Operation that will expand its backhaul recycling to every part of the country. Backhauling is using empty trucks and mail transportation equipment to carry recyclables from Post Offices to the large distribution centers and hubs on the return trip from transporting mail to the Post Offices. Thus no additional transportation is required for handling recyclables.

The recyclables are consolidated at the hubs to maximize recyclable commodity value. Right now, only about one-third of Post Offices, stations and branches use backhaul recycling best practices. Since mixed paper recyclables are revenue-generating commodities and their disposal as trash incurs a cost, a strong business case exists to expand adoption of these best practices across the network. Once fully implemented, more than 200 plants will serve as recycling hubs throughout the network, collecting materials from neighboring facilities.

Recycling at this level will increase employee engagement in reducing waste and help solidify the role that the Postal Service plays as a sustainability leader in the federal sector. From our perspective, this program is not just "the right thing to do" — it also provides a valuable business opportunity.

IX. The Need for Comprehensive Legislative Reform

The Postal Service is working with Congress to establish a business model that would enable the organization to operate profitably, repay existing debts, invest in needed network improvements and best adapt to a changing marketplace. The industry is going through fundamental changes and the faster we adopt new technologies and leverage the power of data, the better we will be able to compete against other marketing channels. We have to take advantage of opportunities to shape our future.

The rise of the digital economy presents us with an unprecedented opportunity to address the needs of our customers. The Postal Service is working to encourage that growth by offering easy-to-use Postal Service products. We see tremendous examples of companies using mail more effectively as a result of using data and technology better. Our customers are getting rich data from their mailings. They are integrating and combining that data with the data they are getting from other marketing channels.

No business imperative is more significant in transforming the Postal Service than providing our customers with a great experience whenever they work with us. We are holding ourselves accountable, taking ownership of issues and following through on promised actions. These changes are starting to have a positive impact on the way marketers look at mail — and we have to build some momentum about how mail is changing.

There are a number of key initiatives that the Postal Service has requested Congress to consider that would facilitate this new adaptive business model:

- Require within the Federal Employees Health Benefit Program a set of specific health care plans that would fully integrate with Medicare and virtually eliminate the retiree health benefits unfunded liability.

- Adjust the FERS payment amount using Postal Service-specific demographic and salary growth assumptions and refund any existing surplus.

- Adjust delivery frequency (six-day packages/five-day mail).

- Streamline governance model and eliminate duplicative oversight.

- Provide authority to expand products and services.

- Require defined contribution retirement system for future Postal Service employees.

- Require arbitrators to consider the financial condition of the Postal Service.

- Reform Workers' Compensation.

- Allow the Postal Service the right to appeal EEOC class action decisions to Federal Court.

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The Sonic Eagle Logo and the trade dress of the Round Top Collection Box, the Letter Carrier Uniform, USPS packaging and the LLV Mail Truck are also among the many trademarks belonging to the United States Postal Service.

Year references

All references to a specific year or "the year" refer to the Postal Service fiscal year ending Sept. 30. However, specific month and year references pertain to the calendar date.

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